Form 51-102F4
Business Acquisition Report

Item 1 Identity of Company

1.1 Name and Address of Company

Intact Financial Corporation ("**IFC**")
700 University Avenue, Suite 1500
Toronto, Ontario
M5G 0A1

1.2 Executive Officer

For further information regarding the Acquisition (as defined below) and this Business Acquisition Report ("**Report**"), contact Frédéric Cotnoir, Executive Vice President & Chief Legal Officer at: (514) 985-7111.

Item 2 Details of Acquisition

2.1 Nature of Business Acquired

On November 18, 2020, IFC announced that, together with the Scandinavian property and casualty ("**P&C**") company Tryg A/S ("**Tryg**"), it had reached an agreement pursuant to which IFC would acquire all of the issued and to be issued share capital of RSA Insurance Group plc ("**RSA**"), a multinational insurance group with strong positions in the P&C insurance market in the U.K., Scandinavia and Canada along with supporting international business in Ireland, Continental Europe and the Middle East, by way of a scheme of arrangement under Part 26 of the U.K. Companies Act (the "**Acquisition**"), immediately followed by a sale of part of RSA's Scandinavia business to Tryg (the "**Disposition to Tryg**" and, together with the Acquisition, the "**Transactions**").

As part of the Acquisition, which closed on June 1, 2021, IFC acquired all issued and outstanding shares of RSA in exchange for 685 pence per ordinary share, reflecting an aggregate cash consideration of approximately £7.2 billion (approximately $12.4 billion, translated to Canadian dollars at the exchange rate in effect as at March 31, 2021).

On the same date, IFC sold RSA's business in Sweden, Norway, and a co-share of RSA's Danish business via the Disposition to Tryg, for proceeds of approximately £4.2 billion (approximately $7.3 billion, translated to Canadian dollars at the exchange rate in effect as at March 31, 2021), which were used to partially fund the consideration paid to RSA's shareholders pursuant to the Acquisition.

Pursuant to the Transactions, IFC retains RSA's Canadian, U.K. and International businesses, Tryg retains RSA's Swedish and Norwegian businesses, and IFC and Tryg co-own RSA's Danish business.

Subsequently, on June 11, 2021, IFC announced the sale of RSA's Danish business to Alm. Brand A/S Group ("**Alm. Brand**") (the "**DK Sale**"), representing proceeds of approximately DKK6.3 billion (approximately $1.26 billion, translated to Canadian dollars at the exchange rate in effect as at June 11, 2021) for IFC's 50% ownership, which is expected to close during the first half of 2022, subject to the receipt of the relevant approvals or clearances from regulatory and antitrust authorities, the completion of Alm. Brand's financing and the satisfaction or waiver of certain other conditions.

RSA's Canadian entities operate across all provinces, offering a range of personal and commercial lines products. In personal lines, RSA's Canadian entities operate under the brand Johnson, as well as the RSA brand via brokers. In commercial lines, the RSA Canadian entities operate through brokers. RSA's U.K. entities operate across both personal and commercial lines. Personal insurance is offered to U.K. customers through MORE TH>N and affinity partners, which include major retailers and large banks. RSA's U.K. entities have a strong presence in the U.K. motor, home and pet markets. In Ireland, RSA's entities offer personal lines insurance through the 123.ie brand. Across the U.K., Ireland and Continental Europe, RSA's commercial insurance entities operate under the RSA brand through brokers. In the Middle East, RSA's entities operate with local brands through partnerships. RSA's Danish business is one of the leading insurers in Denmark's non-life sector. For risk factors relating to such businesses, see Schedule "D" to this Report.

For further information regarding the Acquisition, readers are referred to the section entitled "Acquisition of RSA's Canadian, U.K. and International Operations" (Section 11) of IFC's MD&A for the quarter ended March 31, 2021 ("**Q1 MD&A**") and Note 4 of IFC's Interim Consolidated Financial Statements (unaudited) for the quarter ended March 31, 2021 ("**Q1 IFC Interim Statements**"). The Q1 MD&A and the Q1 IFC Interim Statements are available on SEDAR at www.sedar.com.

2.2 Acquisition Date

The acquisition date used for accounting purposes is June 1, 2021.

2.3 Consideration

Under the Acquisition, holders of ordinary shares of RSA ("**RSA Shares**") were entitled to receive 685 pence in cash for each RSA Share held. Such payment was in addition to the interim dividend of 8 pence per RSA Share that was announced by RSA on September 15, 2020 and paid by RSA in December 2020. The cash consideration payable pursuant to the Acquisition (i.e., excluding such interim dividend) valued the share capital of RSA at approximately £7.2 billion (approximately $12.4 billion, translated to Canadian dollars at the exchange rate in effect as at March 31, 2021) on a fully diluted basis.

IFC funded the purchase price for the Acquisition and expected related transaction fees with the proceeds from the Disposition to Tryg and a combination of equity and debt, as follows:

- the net proceeds (including net of dividend equivalent payments) from a non-brokered private placement subscription receipt offering completed on November 25, 2020, which raised aggregate gross proceeds of approximately $3.2 billion (the "**Cornerstone Subscription Receipt Offering**");

- the net proceeds (including net of dividend equivalent payments) from an underwritten bought-deal private placement subscription receipt offering completed on December 3, 2020, which raised aggregate gross proceeds of approximately $1.25 billion (the "**Underwritten Subscription Receipt Offering**");

- the net proceeds from a brokered private placement medium term note offering completed on December 16, 2020, which raised aggregate gross proceeds of $600 million;

- the net proceeds from an underwritten private placement fixed-to-fixed subordinated note offering completed on March 31, 2021, which raised aggregate gross proceeds of $250 million (the "**Hybrid Offering**"); and

- the net proceeds from a US$478 million draw down under a bank term loan facility on June 1, 2021.

The escrow release conditions of the subscription receipts sold pursuant to each of the Cornerstone Subscription Receipt Offering and the Underwritten Subscription Receipt Offering were met on June 1, 2021 and 23,791,824 and 9,272,000 common shares of IFC were issued on a one-for-one basis on June 1, 2021 for the then outstanding subscription receipts sold under such offerings, respectively.

2.4 Effect on Financial Position

IFC does not presently plan or propose to make any material changes in its business or affairs, either generally or with respect to RSA, that would reasonably be expected to have a significant effect on the results of operations or financial position of IFC. On June 11, 2021, IFC announced the DK Sale.

2.5 Prior Valuations

To the knowledge of IFC, there has been no valuation opinion obtained within the last 12 months by IFC, Tryg or RSA required by securities legislation or a Canadian exchange or market to support the consideration paid by IFC and Tryg for RSA.

2.6 Parties to Transaction

The Acquisition was not a transaction with an informed person, associate or affiliate of IFC (as such terms are defined in National Instrument 51-102 *Continuous Disclosure Obligations*).

2.7 Date of Report

June 16, 2021

Item 3 Financial Statements and Other Information

Attached as Schedule "A", Schedule "B" and Schedule "C" to this Report, respectively, are the following financial statements:

(a) IFC's unaudited *pro forma* condensed consolidated balance sheet as at March 31, 2021, IFC's unaudited *pro forma* condensed consolidated statement of income for the year ended December 31, 2020 and IFC's unaudited *pro forma* condensed consolidated statement of income for the three months ended March 31, 2021 together with the notes thereto (the "**Pro Forma Financial Statements**");

(b) Audited consolidated financial statements of RSA for the years ended December 31, 2020 and 2019, together with the notes thereto and the auditors' report on the Annual Report and Accounts of RSA from which the audited consolidated financial statements of RSA have been extracted; and

(c) Unaudited condensed consolidated financial statements of RSA for the three-month period ended March 31, 2021, together with the notes thereto.

Presentation of Financial Information

The financial statements of IFC shown in the Pro Forma Financial Statements in this Report are reported in Canadian dollars and have been prepared in accordance with the International Financial Reporting Standards as adopted by the International Accounting Standards Board. RSA's historical financial statements were presented in pounds sterling ("**GBP**") and prepared in accordance with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and International Accounting Standards in conformity with the U.K. Companies Act 2006.

There are no material differences from International Financial Reporting Standards applied by RSA adopted in the U.K. and those applied by IFC adopted in Canada that would require reconciliation for the purposes of National Instrument 52-107 – *Acceptable Accounting Principles and Auditing Standards*. However, there are differences related to local accounting practices as permitted under IFRS 4 – *Insurance contracts*. For more details on accounting policy and presentation alignment, refer to Note 3.1 in Schedule "A" to this Report.

The assets and liabilities of RSA shown in the unaudited *pro forma* condensed consolidated balance sheet of IFC as at March 31, 2021 are translated to Canadian dollars at the exchange rate of 1.73188 Canadian dollars/GBP, which was in effect as at March 31, 2021. The revenues and expenses of RSA shown in the unaudited *pro forma* condensed consolidated statements of income of IFC for the year ended December 31, 2020 and for the three months ended March 31, 2021 are translated to Canadian dollars at the average exchange rate in effect during the period of 1.71985 Canadian dollars/GBP for the year ended December 31, 2020, and 1.74596 Canadian dollars/GBP for the three months ended March 31, 2021.

Caution Regarding Unaudited *Pro Forma* Condensed Consolidated Financial Statements

This Report contains the unaudited *Pro Forma* Financial Statements of IFC comprised of the condensed consolidated balance sheet of IFC as at March 31, 2021, the condensed consolidated statement of income of IFC for the year ended December 31, 2020 and the condensed consolidated statement of income of IFC for the three-month period ended March 31, 2021 that have been prepared by management for illustrative purposes only, to show the effect of the Acquisition and the sale of part of RSA's Scandinavia business to Tryg (collectively, the "Transactions"). In preparing the *Pro Forma* Financial Statements, IFC has not independently verified the financial statements of RSA that were used to prepare the *Pro Forma* Financial Statements. Such *Pro Forma* Financial Statements are not intended to be indicative of the results that would actually have occurred, or the results expected in future periods, had the events reflected herein occurred on the dates indicated. The Acquisition has been accounted for as a business combination in the *Pro Forma* Financial Statements in accordance with International Financial Reporting Standard 3, Business Combinations. The purchase price consideration has been allocated on a preliminary *pro forma* basis to the estimated fair value of net assets acquired as at March 31, 2021, the date of the condensed consolidated pro forma balance sheet, based on IFC's management's best estimates and takes into account available information up to the date of this Report. As these amounts are preliminary, differences in the actual amounts assigned to the fair values of the identifiable assets and liabilities upon the completion of detailed valuations and calculations could differ materially and result in changes in periods subsequent to the completion of the Transactions. Since the *Pro Forma* Financial Statements have been developed to retroactively show the effect of a transaction that occurred at a later date (even though this was accomplished by following generally accepted practice using reasonable assumptions), there are limitations inherent in the very nature of *pro forma* data. The data contained in the *Pro Forma* Financial Statements represents only a simulation of the potential financial impact of the Acquisition. Undue reliance should not be placed on such *Pro Forma* Financial Statements.

The *Pro Forma* Financial Statements have been prepared from information derived from and should be read in conjunction with: (i) the historical audited consolidated financial statements of IFC for the year ended December 31, 2020, filed on SEDAR on February 9, 2021; (ii) the historical unaudited interim consolidated financial statements of IFC for the three-month period ended March 31, 2021, filed on SEDAR on May 11, 2021; (iii) the historical audited consolidated financial statements of RSA for the year ended December 31, 2020 (Schedule "B" to this Report); and (iv) the historical unaudited condensed consolidated interim financial statements of RSA for the three-month period ended March 31, 2021 (Schedule "C" to this Report).

In this Report, references to "IFC" refer to IFC and its operating subsidiaries unless the subject matter or context is inconsistent therewith and all references to currency amounts are to Canadian dollars unless otherwise specified. The rounding of certain figures contained in this Report may cause a nonmaterial discrepancy in totals, subtotals and percentages.

Forward-looking statements

Certain of the statements included in this Report about the Acquisition and the DK Sale or any other future events or developments constitute forward-looking statements. The words "may", "will", "would", "should", "could", "expects", "plans", "intends", "trends", "indications", "anticipates", "believes", "estimates", "predicts", "likely", "potential" or the negative or other variations of these words or other similar or comparable words or phrases, are intended to identify forward-looking statements. Unless otherwise indicated, all forward-looking statements in this Report are made as of June 16, 2021 and are subject to change after that date.

Forward-looking statements are based on estimates and assumptions made by IFC's management based on management's experience and perception of historical trends, current conditions and expected future developments, as well as other factors that management believes are appropriate in the circumstances. In addition to other estimates and assumptions which may be identified herein, estimates and assumptions have been made regarding, among other things, the realization of the expected strategic, financial and other benefits of the Acquisition, and economic and political environments and industry conditions. The completion of the DK Sale is subject to customary closing conditions, termination rights and other risks and uncertainties, including, without limitation, regulatory approvals or clearances and completion of Alm. Brand's financing, and there can be no assurance that the DK Sale will be completed in a timely manner, or at all. Many factors could cause IFC's actual results, financial performance or condition, or achievements to differ materially from those expressed or implied by the forward-looking statements herein.

All of the forward-looking statements included in this Report are qualified by these cautionary statements and those made in the section entitled Risk Management (Sections 28-33) of IFC's MD&A for the year ended December 31, 2020, the section entitled Risk Management (section 19) of the Q1 MD&A, the section entitled "Schedule "D" – Risk Factors" in this Report, and as discussed elsewhere in this Report. These factors are not intended to represent a complete list of the factors that could affect IFC. These factors should, however, be considered carefully. Although the forward-looking statements are based upon what management believes to be reasonable assumptions, IFC cannot assure investors that actual results will be consistent with these forward-looking statements. Investors should not rely on forward-looking statements to make decisions, and investors should ensure the preceding information is carefully considered when reviewing forward-looking statements contained herein. IFC and management have no intention and undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

SCHEDULE "A"

Unaudited pro forma condensed consolidated financial statements of Intact Financial Corporation after giving effect to the Acquisition of RSA and the Disposition to Tryg

INTACT FINANCIAL CORPORATION

Unaudited pro forma condensed consolidated balance sheet

As at March 31, 2021

(in millions of Canadian dollars, except as otherwise noted)	IFC[1]	RSA Group[2]	Pro Forma Reclass Scandinavia Book Value	Pro Forma Acquisition Adjustments	Notes	Pro Forma Disposition to Tryg	IFC Pro Forma Consolidated
		Note 3.1	Note 3.2(h)			Note 3.3(a)	
Assets							
Cash and cash equivalents	$ 1,062	$ 1,585	$ (236)	$ (7,696)	3.2(a), (d), & (g)	$ 7,283	$ 1,998
Other investments	20,204	20,632	(7,600)	(38)	3.2(b)	-	33,198
Total investments	21,266	22,217	(7,836)	(7,734)		7,283	35,196
Premiums receivable	3,454	4,896	(1,017)	-		-	7,333
Reinsurance assets	1,498	4,524	(86)	-		-	5,936
Deferred acquisition costs	1,031	1,011	(121)	-		-	1,921
Intangible assets	2,496	923	(157)	1,334	3.2(b)	-	4,596
Goodwill	2,825	558	(217)	(341)	3.2(b)	-	2,825
Other assets[3]	2,694	2,644	(252)	(91)	3.2(b) & (d)	-	4,995
Assets held for sale	-	-	9,887	5,790	3.2(b)	(14,809)	868
Total assets	**35,264**	**36,773**	**201**	**(1,042)**		**(7,526)**	**63,670**
Liabilities							
Claims liabilities	12,750	15,852	(4,806)	352	3.2(b)	-	24,148
Unearned premiums	5,880	7,000	(1,654)	-		-	11,226
Debt outstanding	3,237	1,301	-	729	3.2(b) & (d)	-	5,267
Other liabilities[4]	3,328	4,581	(865)	436	3.2(b) & (d)	-	7,480
Liabilities held for sale	-	-	7,526	-		(7,526)	-
Total liabilities	**25,195**	**28,734**	**201**	**1,517**		**(7,526)**	**48,121**
Equity							
Common shares	3,265	3,692	-	573	3.2(c) & (d)	-	7,530
Preferred shares	1,175	216	-	(216)	3.2(c)	-	1,175
Contributed surplus	187	674	-	(674)	3.2(c)	-	187
Retained earnings	5,077	2,302	-	(2,216)	3.2(b), (c), (d), & (g)	-	5,163
Accumulated other comprehensive income (loss)	365	369	-	(369)	3.2(c)	-	365
Equity attributable to shareholders	10,069	7,253	-	(2,902)		-	14,420
Equity attributable to non-controlling interests	-	786	-	343	3.2(b) & (c)	-	1,129
Total equity	**10,069**	**8,039**	**-**	**(2,559)**		**-**	**15,549**
Total liabilities and equity	**35,264**	**36,773**	**201**	**(1,042)**		**(7,526)**	**63,670**

1 Certain line items were combined for the purpose of the unaudited pro forma condensed consolidated balance sheet.

2 Reflects the consolidated results of RSA Insurance Group plc. after adjustments to align with IFC's accounting policies and presentation as outlined in Note 3.1.

3 Includes investments in associates and joint ventures, property and equipment, income taxes receivable, deferred tax assets, and other assets.

4 Includes financial liabilities related to investments, income taxes payable, deferred tax liabilities, and other liabilities.

INTACT FINANCIAL CORPORATION

Unaudited pro forma condensed consolidated statement of income

For the year ended December 31, 2020

(in millions of Canadian dollars, except as otherwise noted)	IFC	RSA Group [1]	Pro Forma Acquisition Adjustments	Notes	Pro Forma Disposition to Tryg	IFC Pro Forma Consolidated
		Note 3.1			Note 3.3(b)	
Direct premiums written	**$ 12,143**	**$ 12,524**	**$ -**		**$ (3,065)**	**$ 21,602**
Premiums ceded	(527)	(1,821)	-		31	(2,317)
Net premiums written	11,616	10,703	-		(3,034)	19,285
Changes in unearned premiums	(375)	(41)	-		62	(354)
Net earned premiums	**11,241**	**10,662**	-		**(2,972)**	**18,931**
Other underwriting revenues	135	177	-		(17)	295
Investment income	600	444	-		(124)	920
Other revenues	327	46	-		-	373
Total revenues	**12,303**	**11,329**	-		**(3,113)**	**20,519**
Net claims incurred	(6,883)	(6,911)	-		1,988	(11,806)
Underwriting expenses	(3,696)	(3,330)	-		554	(6,472)
Investment expenses	(23)	(24)	-		5	(42)
Net gains (losses)	182	(108)	-		43	117
Gain on bargain purchase	-	-	215	3.2(b)	-	215
Share of profit from investments in associates and JVs	52	2	-		(2)	52
Finance costs	(115)	(57)	(29)	3.2(d)	3	(198)
Acquisition, integration and restructuring costs	(115)	(158)	(91)	3.2(g)	-	(364)
Other expenses	(346)	(65)	(98)	3.2(e)	24	(485)
Income before income taxes	1,359	678	(3)		(498)	1,536
Income tax benefit (expense)	(277)	(170)	33	3.2(f)	117	(297)
Net income	**1,082**	**508**	**30**		**(381)**	**1,239**
Net income attributable to:						
Shareholders	1,082	475	5		(381)	1,181
Non-controlling interests	-	33	25	3.2(i)	-	58
	1,082	**508**	**30**		**(381)**	**1,239**
Weighted-average number of common shares outstanding (in millions)				4		176.1
Earnings per common share attributable to shareholders, basic and diluted (in dollars)				4		$ 6.41

[1] Reflects the consolidated results of RSA Insurance Group plc. after adjustments to align with IFC's accounting policies and presentation as outlined in Note 3.1.

INTACT FINANCIAL CORPORATION

Unaudited pro forma condensed consolidated statement of income

For the three-months ended March 31, 2021

(in millions of Canadian dollars, except as otherwise noted)	IFC	RSA Group [1]	Pro Forma Acquisition Adjustments	Notes	Pro Forma Disposition to Tryg	IFC Pro Forma Consolidated
		Note 3.1			Note 3.3(b)	
Direct premiums written	**$ 2,543**	**$ 3,570**	**$ -**		**$ (1,173)**	**$ 4,940**
Premiums ceded	(124)	(936)	-		42	(1,018)
Net premiums written	2,419	2,634	-		(1,131)	3,922
Changes in unearned premiums	358	21	-		358	737
Net earned premiums	**2,777**	**2,655**	-		**(773)**	**4,659**
Other underwriting revenues	35	38	-		(3)	70
Investment income	146	101	-		(24)	223
Other revenues	92	12	-		-	104
Total revenues	**3,050**	**2,806**	-		**(800)**	**5,056**
Net claims incurred	(1,431)	(1,467)	-		494	(2,404)
Underwriting expenses	(956)	(828)	-		124	(1,660)
Investment expenses	(5)	(7)	-		2	(10)
Net gains (losses)	118	9	-		(14)	113
Gain on bargain purchase	-	-	-		-	-
Share of profit from investments in associates and JVs	11	-	-		-	11
Finance costs	(28)	(14)	(4)	3.2(d)	-	(46)
Acquisition, integration and restructuring costs	(43)	(5)	17	3.2(g)	-	(31)
Other expenses	(86)	(5)	(25)	3.2(e)	2	(114)
Income before income taxes	630	489	(12)		(192)	915
Income tax benefit (expense)	(116)	(107)	3	3.2(f)	40	(180)
Net income	**514**	**382**	**(9)**		**(152)**	**735**
Net income attributable to:						
Shareholders	514	379	(13)		(152)	728
Non-controlling interests	-	3	4	3.2(i)	-	7
	514	**382**	**(9)**		**(152)**	**735**
Weighted-average number of common shares outstanding (in millions)				4		176.1
Earnings per common share attributable to shareholders, basic and diluted (in dollars)				4		$ 4.06

[1] Reflects the consolidated results of RSA Insurance Group plc. after adjustments to align with IFC's accounting policies and presentation as outlined in Note 3.1.

Notes to the unaudited pro forma condensed consolidated financial statements

(Amounts are in millions of Canadian Dollars ("CAD") unless otherwise noted, except for information on shares)

1. ACQUISITION OF RSA INSURANCE GROUP PLC

Intact Financial Corporation ("IFC" or the "Company"), incorporated under the *Canada Business Corporations Act*, is domiciled in Canada and its shares are publicly traded on the Toronto Stock Exchange (TSX: IFC). The Company has investments in wholly owned subsidiaries which operate principally in the Canadian property and casualty ("P&C") insurance market and offers specialty insurance products mainly to small and midsize businesses in the United States. The Company, through its operating subsidiaries, principally underwrites automobile, home, as well as commercial P&C contracts to individuals and businesses.

On November 18, 2020, the Company announced that, together with the Scandinavian P&C company Tryg A/S ("Tryg"), it had reached an agreement pursuant to which the Company would acquire all of the issued and to be issued share capital of RSA Insurance Group plc ("RSA"), a multinational insurance group with strong positions in the P&C insurance market in the U.K., Scandinavia and Canada along with supporting international business in Ireland, Continental Europe and the Middle East, by way of a scheme of arrangement under Part 26 of the U.K. Companies Act (the "Acquisition"), immediately followed by a sale of part of RSA's Scandinavia business to Tryg (the "Disposition to Tryg").

As part of the Acquisition, which closed on June 1, 2021, the Company acquired all issued and outstanding shares of RSA in exchange for 685 pence per ordinary share, reflecting an aggregate cash consideration of approximately £7.2 billion (approximately $12.4 billion).

On the same date, the Company sold RSA's business in Sweden, Norway, and a co-share of RSA's Danish business via the Disposition to Tryg, for proceeds of approximately £4.2 billion (approximately $7.3 billion), which was used to partially fund the consideration paid to RSA's shareholders.

The remaining balance of approximately £3.0 billion (approximately $5.2 billion) and expected related transaction fees of approximately $0.7 billion was raised via the net proceeds of offerings by the Company of $4.45 billion of private placement subscription receipts, $600 million of medium-term notes, and $250 million of subordinate notes, along with a US$478 million ($600 million) bank term loan facility drawn on closing.

The pro forma financial information reflects both the Acquisition of RSA and the Disposition to Tryg (collectively the "Transactions"). The CAD equivalents disclosed in this Note 1 above and for the purpose of the unaudited pro forma condensed consolidated balance sheet were translated to CAD at the exchange rate in effect as at March 31, 2021, reflecting the basis of presentation in Note 2.

Pursuant to the Transactions, IFC retains RSA's Canadian, U.K. and International businesses, Tryg retains RSA's Swedish and Norwegian businesses, and IFC and Tryg co-own RSA's Danish business.

Subsequently, on June 11, 2021, the Company announced the sale of RSA's Danish business to Alm. Brand A/S Group ("Alm. Brand") (the "DK Sale"), representing proceeds of approximately DKK 6.3 billion (approximately $1.26 billion on June 11, 2021) for the Company's 50% ownership, which is expected to close during the first half of 2022, subject to the receipt of the relevant approvals or clearances from regulatory and antitrust authorities, the completion of Alm. Brand's financing, and the satisfaction or waiver of certain other conditions.

2. BASIS OF PRESENTATION

These unaudited pro forma condensed consolidated financial statements of the Company have been prepared by management for illustrative purposes only, to show the effect of the Acquisition of RSA and the Disposition to Tryg. The unaudited pro forma condensed consolidated financial statements have been prepared in accordance with National Instrument 51-102 Continuous Disclosure Obligations, by applying pro forma adjustments to the Company's and RSA's historical consolidated financial statements.

The unaudited pro forma condensed consolidated financial statements and the accompanying notes have been prepared as if the Transactions had occurred on January 1, 2020 for the purposes of the unaudited pro forma condensed consolidated statement of income for the three-month period ended March 31, 2021 and for the year ended December 31, 2020, and as if the Transactions occurred on March 31, 2021 for the purposes of the unaudited pro forma condensed consolidated balance sheet as at March 31, 2021.

The pro forma information is based on the accounting policies disclosed in the Company's financial statements applicable for each of the respective periods and the assumptions and adjustments described below. Management has determined that adjustments to RSA's financial statements are required to comply with the accounting policies used by the Company in the preparation of this pro forma. These adjustments are described in Note 3.1.

The pro forma information has been prepared from information derived from and should be read in conjunction with:

- the historical audited consolidated financial statements of IFC for the year ended December 31, 2020, filed on SEDAR on February 9, 2021;

- the historical unaudited interim consolidated financial statements of IFC for the three-month period ended March 31, 2021, filed on SEDAR on May 11, 2021;

- the historical audited consolidated financial statements of RSA for the year ended December 31, 2020 (Schedule "B"); and

- the historical unaudited condensed consolidated interim financial statements of RSA for the three-month period ended March 31, 2021 (Schedule "C").

RSA's historical financial statements were originally presented in pound sterling ("GBP" or "£") and have been translated to Canadian dollars for presentation in these pro forma condensed consolidated financial statements. The assets and liabilities of RSA were translated to CAD at the exchange rate in effect on March 31, 2021, and the revenues and expenses of RSA were translated at the average exchange rate in effect during the related periods. All dollar amounts herein are in millions of Canadian dollars, unless otherwise indicated.

The Acquisition has been accounted for as a business combination in the pro forma condensed consolidated financial statements in accordance with IFRS 3, Business Combinations ("IFRS 3"). The purchase price consideration has been allocated on a preliminary pro forma basis to the estimated fair value of net assets acquired as at March 31, 2021, the date of the pro forma consolidated balance sheet, based on management's best estimates and takes into account available information up to the date of this report. As these amounts are preliminary, differences in the actual amounts assigned to the fair values of the identifiable assets and liabilities upon the completion of detailed valuations and calculations could differ materially and result in changes in periods subsequent to the completion of the Transactions.

The unaudited pro forma condensed consolidated statements of earnings do not reflect future events that may occur after the Transactions, including, but not limited to, new revenue generating opportunities, cost savings from operating synergies, and integration costs. The unaudited pro forma condensed consolidated financial statements are not intended to reflect the results of operations or the financial position that would have resulted had the Transactions been effected on the dates indicated above, or the results that may be obtained in the future. Since the unaudited pro forma condensed consolidated financial statements have been developed to retroactively show the effect of a transaction that occurred at a later date (even though this was accomplished by following generally accepted practice using reasonable assumptions), there are limitations inherent in the very nature of pro forma data.

In the opinion of management, these unaudited pro forma condensed consolidated financial statements contain all adjustments required to ensure fair presentation.

3. PRO FORMA SIGNIFICANT ASSUMPTIONS AND ADJUSTMENTS

In the preparation of the unaudited pro forma condensed consolidated financial statements, the following significant assumptions and adjustments have been made.

3.1 Accounting Policy and Presentation

The financial statements of the Company shown in the unaudited pro forma condensed consolidated financial statements in this report are reported in Canadian dollars and have been prepared in accordance with the International Financial Reporting Standards as adopted by the IASB ("IFRS").

RSA's historical financial statements were presented in GBP and prepared in accordance with IFRS adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and International Accounting Standards in conformity with the U.K. Companies Act 2006 for the year ended December 31, 2020 and as at and for the three-month period ended March 31, 2021. When compared to the Company's accounting policies, different policies were identified for:

a. Capitalization policy on deferred acquisition costs for RSA's Canadian entities. To reflect the application of the Company's capitalization policy for deferred acquisition costs, in line with local accounting practices under IFRS 4 – *Insurance Contracts* ("IFRS 4"), RSA's deferred acquisition costs were reduced by £37 million ($63 million) within the unaudited condensed consolidated pro forma balance sheet as at March 31, 2021. As these costs are generally amortized over a 12 month period by IFC, for the purpose of the unaudited pro forma condensed consolidated statements of income, this timing difference in expense recognition was not reflected for the year ended December 31, 2020 and the three-month period ended March 31, 2021. These adjustments were tax affected, using the average rate described in Note 3.1(f). There was no such adjustment required in connection with RSA's other entities.

b. Claims liabilities. Under RSA's policies, the provisions for losses and loss adjustment expenses are discounted where there is a long period from incident to claims settlement, where claims with a longer period from incident to claims settled is viewed as an average period of settlement of six years or more. Under IFC's accounting policies, expenses with a shorter period from incident to claims settlement are subject to discounting. The alignment of the accounting policies for the discounting, combined with the alignment of the assumptions and methodologies for the determination of the risk margin, were recognized in the condensed consolidated pro forma balance sheet. The combined impact was to increase net claims liabilities by £16 million ($28 million) as at March 31, 2021. The related movement of the net claims liability within earnings for the year ended December 31, 2020 and three-month period ended March 31, 2021, was an increase of £89 million ($153 million) and decrease of £32 million ($56 million), respectively. These adjustments were tax affected, using the average rate described in Note 3.1(f). The impact on gross insurance claims liabilities and the associated reinsurance assets have not been separately presented in the unaudited pro forma condensed consolidated financial statements.

Adjustments were made to translate the balances to Canadian dollars and to align those financial statements to the accounting policies used by the Company. However, there are differences related to local accounting practices as permitted under IFRS 4, as noted above. Additionally, certain line items presented on RSA's historical financial information have been reclassified for the purposes of the pro forma financial statements to match the Company's presentation.

The preliminary adjustments are based on management's best estimate and are subject to change. Final determination of accounting policy differences and any corresponding adjustments may differ from these estimates and these changes may be material.

The following tables include the adjustments that were made to align the RSA consolidated financial statements to the Company's accounting policies, presentation and reporting currency:

RSA unaudited condensed consolidated balance sheet as of March 31, 2021:

RSA Line Items	**RSA Group**	**IFRS Policy [1] and Presentation Alignment**	**Notes**	**Revised RSA Group**	**Revised RSA Group [2]**	**IFC Line Items**
(in millions of GBP and millions of CAD)	GBP	GBP		GBP	CAD	
Assets						
Goodwill and other intangible assets	£ 855	£ (533)		£ 322	$ 558	Goodwill
		533		533	923	Intangible assets
Property and equipment	227	-		227	393	Other assets
Investments	11,917	(4)		11,913	20,632	Other investments
Reinsurers' share of insurance contract liabilities	2,612	-		2,612	4,524	Reinsurance assets
Insurance and reinsurance debtors	3,043	(216)		2,827	4,896	Premiums receivable
Other assets	1,080	220		1,300	2,251	Other assets
		584	3.1(a)	584	1,011	Deferred acquisition costs
Cash and cash equivalents	915	-		915	1,585	Cash and cash equivalents
Total assets	20,649	584		21,233	36,773	
Equity and liabilities						
Equity						
Equity attributable to owners of the Parent Company	4,526	(2,394)		2,132	3,692	Common shares
		125		125	216	Preferred shares
		389		389	674	Contributed surplus
		1,329	3.1(a) & (b)	1,329	2,302	Retained earnings
		213		213	369	Accumulated other comprehensive income (loss)
Non-controlling interests	157	297		454	786	Non-controlling interests
Total Equity	4,683	(41)		4,642	8,039	
Liabilities						
Issued debt	751	-		751	1,301	Debt outstanding
Insurance contract liabilities	12,558	(3,405)	3.1(b)	9,153	15,852	Claims liabilities
	-	4,042		4,042	7,000	Unearned premiums
Insurance and reinsurance liabilities	1,123	(1,123)		-	-	
Borrowings	193	95		288	499	Other liabilities
Provisions and other liabilities	1,341	1,016	3.1(a) & (b)	2,357	4,082	Other liabilities
Total liabilities	15,966	625		16,591	28,734	
Total equity and liabilities	20,649	584		21,233	36,773	

[1] The IFRS policy alignment does not reflect the potential impact on RSA's Scandinavia business. As RSA's Sweden and Norway businesses and a co-share of RSA's Danish business were subsequently sold via the Disposition to Tryg, and as the Company's retained interest in the Danish business was classified as an investment in associates held for sale, the impact associated with any potential policy alignment has been excluded for this purpose.

[2] The assets and liabilities of RSA Group, which has a GBP reporting and functional currency, are translated to CAD at the exchange rate of 1.73188 GBP/CAD, which was in effect as at March 31, 2021.

RSA unaudited condensed consolidated income statement for the year ended December 31, 2020, and the three months ended March 31, 2021:

RSA Line Items	RSA Group	IFRS Policy [1] and Presentation Alignment	Notes	Revised RSA Group	Revised RSA Group [2]	IFC Line Items
	For the year ended December 31, 2020					
(in millions of GBP and millions of CAD)	GBP	GBP		GBP	CAD	
Income						
Gross written premiums	£ 7,282	£ -		£ 7,282	$ 12,524	Direct premiums written
Less: reinsurance written premiums	(1,059)	-		(1,059)	(1,821)	Premiums ceded
Net written premiums	6,223	-		6,223	10,703	Net premiums written
Change in provision for net unearned premiums	(24)	-		(24)	(41)	Changes in unearned premiums
Net earned premiums	6,199	-		6,199	10,662	**Net earned premiums**
Net investment return	217	41		258	444	Interest income
Other operating income	130	(27)		103	177	Other underwriting revenues
		27		27	46	Other revenues
Total income	6,546	41		6,587	11,329	**Total revenues**
Expenses						
Net claims	(3,890)	(128)	3.1(b)	(4,018)	(6,911)	Net claims incurred
Underwriting and policy acquisition costs	(1,936)	-		(1,936)	(3,330)	Underwriting expenses
Unwind of discount and change in economic assumptions	(39)	39				
		(63)		(63)	(108)	Net gains (losses)
Other operating expenses	(160)	122		(38)	(65)	Other expenses
		(14)		(14)	(24)	Investment expenses
	(6,025)	(44)		(6,069)	(10,438)	
Finance costs	(33)	-		(33)	(57)	Finance costs
Loss on disposal of businesses	(6)	(86)		(92)	(158)	Acquisition, integration and restructuring costs
Net share of profit after tax of associates	1	-		1	2	Share of profit from investments in associates and JVs
Profit before tax	483	(89)		394	678	Income before income taxes
Income tax expense	(119)	20		(99)	(170)	Income tax expense
Profit for the year	364	(69)		295	508	
Attributable to:						
Owners of the Parent Company	345	(69)		276	475	**Net income attributable to shareholders**
Non-controlling interests	19	-		19	33	Net income attributable to non-controlling interest
	364	(69)		295	508	

RSA Line Items	RSA Group	IFRS Policy [1] and Presentation Alignment	Notes	Revised RSA Group	Revised RSA Group [2]	IFC Line Items
	For the three months ended March 31, 2021					
(in millions of GBP and millions of CAD)	GBP	GBP		GBP	CAD	
Income						
Gross written premiums	£ 2,045	£ -		£ 2,045	$ 3,570	Direct premiums written
Less: reinsurance written premiums	(536)	-		(536)	(936)	Premiums ceded
Net written premiums	1,509	-		1,509	2,634	Net premiums written
Change in provision for net unearned premiums	12	-		12	21	Changes in unearned premiums
Net earned premiums	1,521	-		1,521	2,655	**Net earned premiums**
Net investment return	56	2		58	101	Interest income
Other operating income	33	(11)		22	38	Other underwriting revenues
		7		7	12	Other revenues
Total income	1,610	(2)		1,608	2,806	**Total revenues**
Expenses						
Net claims	(864)	24	3.1(b)	(840)	(1,467)	Net claims incurred
Underwriting and policy acquisition costs	(474)	-		(474)	(828)	Underwriting expenses
Unwind of discount and change in economic assumptions	(8)	8				
		5		5	9	Net gains (losses)
Other operating expenses	(10)	7		(3)	(5)	Other expenses
		(4)		(4)	(7)	Investment expenses
	(1,356)	40		(1,316)	(2,298)	
Finance costs	(8)	-		(8)	(14)	Finance costs
Gain on disposal of businesses	3	(6)		(3)	(5)	Acquisition, integration and restructuring costs
Net share of profit after tax of associates	-	-		-	-	Share of profit from investments in associates and JVs
Profit before tax	249	32		281	489	Income before income taxes
Income tax expense	(54)	(7)		(61)	(107)	Income tax expense
Profit for the year	195	25		220	382	
Attributable to:						
Owners of the Parent Company	193	25		218	379	**Net income attributable to shareholders**
Non-controlling interests	2	-		2	3	Net income attributable to non-controlling interest
	195	25		220	382	

[1] The IFRS policy alignment does not reflect the potential impact on RSA's Scandinavia business. As RSA's Sweden and Norway businesses and a co-share of RSA's Danish business were subsequently sold via the Disposition to Tryg, and as the Company's retained interest in the Danish business was classified as an investment in associates held for sale, the impact associated with any potential policy alignment has been excluded for this purpose.

[2] The revenues and expenses of RSA are translated to CAD at the average exchange rate in effect during the period of 1.71985 GBP/CAD for the year ended December 31, 2020, and 1.74596 GBP/CAD for the three months ended March 31, 2021.

3.2 The Acquisition

The Acquisition has been reflected in the unaudited pro forma condensed consolidated financial statements using the acquisition method of accounting under IFRS 3, whereby the assets acquired and liabilities assumed are recognized at their estimated fair value.

The preliminary fair value adjustments, reflecting the estimated fair values of the net assets acquired compared to their book values are as follows:

(in millions of GBP and millions of CAD)	GBP	CAD[1]	Notes
Purchase price			
Cash consideration	£ 7,182	$ 12,438	
Total purchase price	**7,182**	**12,438**	3.2(a)
Book value of net assets acquired	4,642	8,039	3.1
Fair value adjustments:			3.2(b)
Other investments	(22)	(38)	
Intangible assets	770	1,334	
Pre-acquisition goodwill reversal	(197)	(341)	
Assets held for sale	3,343	5,790	
Other assets	(33)	(57)	
Claims liabilities	(203)	(352)	
Debt outstanding	(76)	(131)	
Other liabilities	(267)	(462)	
Total identifiable net assets acquired	**7,957**	**13,782**	
Less: Fair value of non-controlling interests	652	1,129	
Gain on bargain purchase	**123**	**215**	

[1] Translated to CAD at the March 31, 2021 exchange rate of 1.73188 GBP/CAD, reflecting that the unaudited pro forma condensed consolidated balance sheet was prepared as if the Acquisition occurred as at March 31, 2021.

(a) Purchase Price

The purchase price is based on the cash consideration of 685 pence per share. The total purchase price has been translated to CAD at the exchange rate in effect as at March 31, 2021, for the purpose of these unaudited pro forma condensed consolidated financial statements.

Comparatively, using the exchange rate in effect on the June 1, 2021 closing of 1.71431 GBP/CAD the total purchase price would have been approximately $12.3 billion, including the actual loss associated with the purchase price cash flow hedge of $32.3 million (nil as at March 31, 2021).

(b) Purchase Price Equation

The above purchase price allocation is preliminary and management is continuing to assess and review the fair values of the net assets acquired. Determinations of fair value often require management to make assumptions and estimates about future events. As of the date of these unaudited pro forma condensed consolidated financial statements, the Company has not finalized the detailed valuation to arrive at the final estimates of the fair value of the assets acquired and liabilities assumed via the

Transactions. As a result, the final allocation of the purchase price could vary significantly from the amounts used in these unaudited pro forma condensed consolidated financial statements.

The estimated impact of the fair value adjustment to claims liabilities has been presented net of reinsurance for the purpose of these unaudited pro forma condensed consolidated financial statements.

The gain on bargain purchase is calculated as the excess of the preliminary estimate of the fair values assigned to the identifiable assets acquired and liabilities assumed over the total consideration transferred.

As the gain on bargain purchase relates specifically to this transaction, this adjustment was reflected in the unaudited pro forma condensed consolidated statement of financial position through retained earnings, and in the unaudited pro forma condensed consolidated statement of income for the year ended December 31, 2020.

(c) Elimination of historical equity accounts

The historical equity accounts of RSA were eliminated via the pro forma adjustment.

(d) Financing

The Company financed the Acquisition as follows:

i. Private placements of subscription receipts: The Company completed a non-brokered private placement subscription receipt offering on November 25, 2020 and an underwritten bought-deal private placement subscription receipt offering on December 3, 2020 pursuant to which it issued 23,791,824 subscription receipts and 9,272,000 subscription receipts, respectively. Each subscription receipt entitled the holder to a common share of the company on a one-for-one basis concurrently with the closing of the Acquisition, resulting in total net proceeds of approximately $4.2 billion (net of dividend equivalent payments at closing of $55 million and net issuance costs of $182 million recorded as a deduction of equity). The price of $134.50 per subscription receipt, being the offering price of the issuance of the subscription receipts of the Company pursuant to the subscription receipt offerings has been used as the issue price per share in the unaudited pro forma condensed consolidated financial statements.

   As a result, the pro forma adjustment made to share capital reflects an increase to the common shares outstanding (see Note 4).

ii. Debt:

   a. Medium Term Notes: On December 16, 2020, the Company issued $300 million principal amount of Series 9 unsecured medium-term notes bearing interest at 1.928%, due December 16, 2030, and $300 million principal amount of Series 10 unsecured medium-term notes bearing interest at 2.954%, due December 16, 2050, for total net proceeds of approximately $596 million.

   b. Subordinate Notes: On March 31, 2021, the Company issued $250 million principal amount of 4.125% fixed-to-fixed rate subordinate notes, Series 1, due March 31, 2081, for net proceeds of approximately $247 million.

   c. Bank term loan facility: At closing of the Acquisition on June 1, 2021, the Company drew down on its US dollar denominated bank term loan facility for gross proceeds of US$478 million ($600 million translated to CAD at the exchange rate in effect as at March 31, 2021), at an interest rate of 0.89%, for net proceeds of approximately $598 million. The draw down of the bank term loan facility was reflected as an adjustment to the unaudited pro forma condensed consolidated balance sheet.

For the purpose of the unaudited pro forma condensed consolidated statements of income, finance expense was adjusted as if the debt financings were completed on January 1, 2020. As a result, the finance expense was increased by $29 million for the year ended December 31, 2020 and $4 million for the three months ended March 31, 2021.

iii. Consideration from the Disposition to Tryg (see Note 3.3 below)

As at March 31, 2021, the Company had recognized $34 million of deferred issuance costs in other assets in connection with the private placements of subscription receipts and the debt financings. These balances were reclassified as a reduction to the related issuance at closing.

(e) Amortization

The amortization expense in other expenses was increased by $98 million for the year ended December 31, 2020 and $25 million for the three-month period ended March 31, 2021. The adjustment reflects the amortization impact on a straight-line basis of the estimated preliminary fair value increments attributable to the intangible assets acquired via the Transactions, subject to an estimated average useful life of 13.5 years.

(f) Income taxes

The pro forma adjustments are tax affected, where appropriate, using an average rate of 22.8%, reflecting the Company's statutory tax rates of 26.5% and RSA's corporate statutory tax rates of 19% for the year-ended December 31, 2020 and the three-month period ended March 31, 2021.

In connection with the U.K.'s 2021 Budget, the U.K. Corporate statutory tax rate is to increase from 19% to 25% effective on April 1, 2023. This change in the tax law has not been reflected in the unaudited pro forma condensed consolidated financial statements, as it was not enacted during the presented periods, as outlined in the basis of presentation in Note 2.

(g) Acquisition costs of the Transactions

The Company's acquisition costs of the Transactions are expected to approximate $133 million, of which $42 million and $17 million were already included in the Company's consolidated statement of income for the periods ended December 31, 2020 and March 31, 2021, respectively.

The incremental costs of $74 million incurred after March 31, 2021 by the Company was reflected as a reduction to cash and retained earnings for the unaudited pro forma condensed consolidated balance sheet.

For the purpose of the unaudited pro forma condensed consolidated statement of income, the acquisition costs were adjusted as if the Transactions had occurred on January 1, 2020. As a result, these costs were increased by $91 million for the year ended December 31, 2020 and reduced by $17 million for the three-month period ended March 31, 2021.

The estimated fair value of the net assets acquired as part of the Acquisition reflects, within other liabilities, RSA's estimated incremental transactions costs of $77 million incurred up to the date of the Acquisition.

(h) Reclassification of assets and liabilities held for sale

The acquired assets and liabilities subject to the Disposition to Tryg (see Note 3.3) were classified as assets and liabilities held for sale. As a result, the historical carrying values associated with these net assets were reclassified as assets held for sale for the purpose of the unaudited pro forma condensed consolidated balance sheet as at March 31, 2021.

Further, the acquired net assets reflecting the Company's retained interest in the Danish business that are subject to the DK Sale were classified as an investment in associate that is held for sale. As a result, the historical carrying values associated with these net assets were reclassified as assets held for sale for the purpose of the unaudited pro forma condensed consolidated balance sheet as at March 31, 2021.

The assets and liabilities held for sale were subsequently adjusted to reflect the fair values at the time of the Acquisition via the purchase price equation as part of Note 3.2(b). After reflecting the Disposition to Tryg in the unaudited pro forma condensed consolidated balance sheet, the IFC pro forma consolidated ending balance as at March 31, 2021 of $868 million reflects the estimated fair value of the Company's retained interest in the Danish business on the date of the Acquisition of June 1, 2021, consistent with the portion of the proceeds received by the Company for the sale of the co-share of the Danish business as part of the Disposition to Tryg.

(i) Non-Controlling Interest Dividends

The non-controlling interest pro forma adjustment reflects the historical dividends paid by RSA to its preferred shareholders and Tier 1 note holders, that will remain outstanding and form part of non-controlling interests after the Transactions.

3.3 The Disposition to Tryg

Immediately following the Acquisition, the Company sold RSA's Sweden and Norway businesses and a co-share of RSA's Danish business to Tryg.

The following pro forma adjustments are reflected within the unaudited pro forma condensed consolidated financial statements for the Disposition to Tryg:

a) Removal of the carrying value, which reflects the estimated fair value at the time of the Acquisition per Note 3.2, of the assets and liabilities held for sale that are associated with the net assets of RSA's Sweden and Norway businesses and the co-share of RSA's Danish business from the March 31, 2021 balance sheet, in exchange for cash proceeds of approximately £4.2 billion (approximately $7.3 billion translated to CAD at the exchange rate in effect as at March 31, 2021); and

b) Removal of the historical income statement impact associated with these net assets, as well as the net assets reflecting the Company's retained interest in the Danish business that are subject to the DK Sale that are held for sale. Due to the classification as held for sale, income is not reflected in connection with the Company's retained interest in the Danish business within the unaudited pro forma condensed consolidated statements of income.

The Disposition to Tryg does not result in a gain or loss on disposal, as the carrying amount of the related net assets was at fair value, due to the Acquisition occurring shortly before.

4. PRO FORMA EARNINGS PER SHARE

The pro forma net earnings per share attributable to common shareholders of the Company for the year ended December 31, 2020 is as follows:

Pro forma net income attributable to shareholders	$	1,181
Less: dividends declared on preferred shares, net of tax		(52)
Net income attributable to common shareholders		**1,129**
Weighted-average number of common shares outstanding (in millions)		143.0
Pro forma shares issued as part of subscription receipt offerings (in millions)		33.1
Pro forma weighted-average number of common shares outstanding, basic and diluted (in millions)		**176.1**
Pro forma earnings per share, basic and diluted	**$**	**6.41**

The pro forma net earnings per share attributable to common shareholders for the three-month period ended March 31, 2021 is as follows:

Pro forma net income attributable to shareholders	$	728
Less: dividends declared on preferred shares, net of tax		(13)
Net income attributable to common shareholders		**715**
Weighted-average number of common shares outstanding (in millions)		143.0
Pro forma shares issued as part of subscription receipt offerings (in millions)		33.1
Pro forma weighted-average number of common shares outstanding, basic and diluted (in millions)		**176.1**
Pro forma earnings per share, basic and diluted	**$**	**4.06**

SCHEDULE “B”

RSA INSURANCE GROUP plc

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (EXTRACT FROM RSA INSURANCE GROUP PLC ANNUAL REPORT AND ACCOUNTS 2020, APPROVED 25 FEBRUARY 2021)

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 accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law and have elected to prepare the Parent Company financial statements on the same basis. In addition the Group financial statements are required under the UK Disclosure and Transparency Rules to be prepared in accordance with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union (IFRSs as adopted by the EU).

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 the Group's 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 judgments and estimates that are reasonable, relevant and reliable
- State whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and, as regards the Group financial statements, 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
- 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 102 to 180, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Parent Company and the undertakings included in the consolidation taken as a whole.
- The Strategic Report on pages ifc to 39 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

25 February 2021

Charlotte Jones
Group Chief Financial Officer

25 February 2021

Independent auditor's report to the members of RSA Insurance Group plc

1. Our opinion is unmodified

We have audited the financial statements of RSA Insurance Group plc ("the Company") for the year ended 31 December 2020 which comprise the consolidated income statement, consolidated and parent company statement of comprehensive income, consolidated and parent company statement of changes in equity, consolidated and parent company statement of financial position, consolidated and parent company statement of cash flows, and the related notes, including the accounting policies in note 5 and note 4 for the parent company.

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 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union ("IFRSs as adopted by the EU");
- the parent Company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of, 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 to the extent applicable.

Basis for opinion

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

We were first appointed as auditor by the shareholders on 13 May 2013. The period of total uninterrupted engagement is for the eight financial years ended 31 December 2020. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality: Group financial statements as a whole	£35m (2019: £35m) 0.6% (2019: 0.5%) of Net Earned Premiums	
Coverage	96% (2019: 97%) of Net Earned Premium	
Key audit matters		**vs 2019**
Recurring risks of the Group	Valuation of Insurance Liabilities	▲
	New: Existence of insurance debtors	▲
	Valuation of post-employment benefits and obligations	◀▶
	Valuation of deferred tax assets	◀▶
Recurring risks of the Parent	Valuation of parent company's investment in subsidiaries	◀▶

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

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
Valuation of insurance liabilities Insurance contract liabilities 2020: £9,379 million gross, £7,755 million net; 2019: £9,141 million gross, £7,561 million net, relating to provision for losses and loss adjustment expenses. *Refer to page 49 (Audit Committee Report), page 110 (accounting policy) and pages 150 to 154 (financial disclosures).*	**Subjective valuation:** Valuation of insurance contract 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. A margin is added to the actuarial best estimate of insurance liabilities to make allowance for specific risks and uncertainties that are not specifically allowed for in establishing the actuarial best estimate. The appropriate margin to recognise is a subjective judgment and estimate taken by the directors, based on the perceived uncertainty and potential for volatility in the underlying claims. Certain lines of business have greater inherent uncertainty, for example those where claims emerge more slowly over time, or where there is greater variability in claim settlement amounts and potential exposure to large losses due to the effect of uncertain or unknown future events. This includes UK Professional and Financial Risk classes; the Danish Workers Compensation class; the Swedish Personal Accident classes; and the Canadian General Liability class. Additional uncertainty in the valuation of insurance liabilities has arisen as a result of the Covid-19 pandemic and the estimation of resulting claims, particularly for Business Interruption classes and the impact of the FCA Test Case ruling, and reductions in claims frequency experienced for some classes of business. Reinsurance recoveries are inherently linked to gross insurance liabilities. The extent of recoveries from the Group's 'Group Volatility Cover' ('GVC') reinsurance contract is a key area of uncertainty due to the judgement applied in determining the value of individual claims eligible for the GVC and aggregation of eligible claims required to trigger a recovery. 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 39) disclose the sensitivity estimated by the Group. **Data capture:** The valuation of insurance liabilities depends on complete and accurate data about the volume, amount and pattern of current and historical claims since they are often used to form expectations about future claims. If the data used in calculating insurance liabilities, or for forming judgments over key assumptions, is not complete and accurate then material impacts on the valuation of insurance liabilities may arise.	With the assistance of our own actuarial specialists across the Group and component audit teams, our procedures included: · **Controls design and observation:** We evaluated the governance around the overall Group reserving process. We assessed the qualifications and experience of those responsible and examined the output of the reviews to assess the scope and depth of these processes. We also evaluated 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; · **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 test the completeness of the data used in the actuarial reserving process; · **Independent re-performance:** We performed independent re-projections of reserve balances using our own models for certain classes of business. The determination of which classes to re-project was based on risk assessment and consideration of the evidence available from other alternative data analysis procedures; · **Our sector experience and benchmarking assumptions:** We compared 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 Covid-19 claims that may affect claims settlement speed or amount; · **Sensitivity analysis:** We evaluated sensitivity analysis over key judgments and assumptions, such as large claims and the discount rates for longer tail classes of business; · **Margin evaluation:** We evaluated 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 setting the margin. In particular we considered the allowance for uncertainties inherent in the data and assumptions in developing the actuarial best estimate through inquiry with the Directors and with respect to our understanding of any changes in the Group's risks and our own sector experience of approaches to setting the margin and the level of margin held by the Group's peers; · **Assessing principles:** We inspected a sample of Business Interruption policy documents, other policyholder information and external information to verify assumptions in the modelling of exposure to claims as a result of the FCA Test Case outcome and the Group's legal assessment of the extent of cover; · **Tests of details:** We compared samples of claims case reserves to appropriate documentation, such as reports from loss adjusters in order to test the valuation of individual claims reserves, particularly where such claims may be subject to recovery under reinsurance arrangements, particularly the Group's GVC contract. We also inspected samples of policy documents to verify completeness and accuracy of data in the modelling of exposure to claims as a result of the FCA Test Case outcome, and considered the eligibility for recovery under the Group's reinsurance arrangements; · **Assessing transparency:** We considered the adequacy of the Group's disclosures in respect of the sensitivity of the insurance liabilities to key assumptions. We performed the tests above over the valuation rather than seeking to rely on the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. **Our results** · We found the valuation of the insurance liabilities to be acceptable (2019 result: acceptable).

Independent auditor's report to the members of RSA Insurance Group plc continued

	The risk	Our response
Existence of insurance debtors (2020: £318m of the total insurance debtors of £2,814 million; 2019: £2,737 million) *Refer to page 50 (Audit Committee Report), page 109 (accounting policy) and page 145 (financial disclosures).*	**Historic issue and judgement over accounting treatment:** There is a risk over the existence of insurance debtors in Sweden as a result of issues identified in respect of the historic reconciliation of insurance debtor balances. Management's remediation programme identified the need for a write-down due to system limitations and process breakdowns which had the potential to be material. Through the course of the audit, there was a risk that the correcting adjustment made by management was incorrect and that a material misstatement remained in the Swedish insurance debtors balance. Since the issues date back a number of years, there is judgement to be applied in considering which period the adjustment should be recorded within and a risk that the related disclosures are not sufficient.	Our procedures included: · **Tests of details:** Our component team in Sweden compared samples of debtor balances to appropriate documentation, such as signed policy agreements and confirmed cash receipts, to test the valuation of individual debtor balances; · **Historical comparisons:** With support from our Scandinavian component team, we assessed the appropriateness of estimation techniques employed by the Group to determine the allocation of the adjustment between financial statement line items and compared the assumptions applied to our historical experience and knowledge of the business; · **Fraud risk assessment:** We consulted with professionals with forensic knowledge in designing appropriate procedures to address the fraud risk factors associated with the identified issues. These procedures included challenging how the error arose and considering whether any individuals could have benefitted from the accounting treatment; · **Assessing principles:** Judgement was applied in determining the appropriate periods in which the correcting adjustment should be recorded taking into account the relevant accounting principles, the materiality of the adjustment and its impacts on headline financial metrics; · **Assessing transparency:** We considered the adequacy of the Group's disclosure in respect of the adjustment made and its potential distortive effect on the financial statements. We performed the tests above rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. **Our results** · As a result of our work we found the existence of the Swedish insurance debtors to be acceptable. We also found the treatment and disclosure of the correcting adjustment in relation to the Swedish insurance debtors to be acceptable.
Valuation of post-employment benefits and obligations (2020: £9,401 million; 2019: £8,681 million) *Refer to pages 49 to 50 (Audit Committee Report), pages 112 to 113 (accounting policy) and pages 155 to 160 (financial disclosures).*	**Subjective valuation:** Small changes in the assumptions and estimates used, in particular the discount rate, inflation rate and mortality improvements, which are highly sensitive to market and geographic circumstances, can have a significant effect on the valuation of the Group's post-employment obligations and therefore the amount of the post-employment benefits and obligations and the Group's financial position. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of post-employment benefits and obligations has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole and possibly many times that amount. The financial statements (note 41) disclose the sensitivity estimated by the Group.	With the assistance of our own pension actuarial specialists, our procedures included: · **Benchmarking assumptions and our experience:** Comparing the key assumptions such as discount rate, inflation rate and mortality improvements against our independent models using external data and information relating to the pension schemes' liability and demographic profile; · **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. We performed the tests above rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. **Our results** · We found the valuation of the post-employment benefits and obligations to be acceptable (2019 result: acceptable).

	The risk	Our response
Valuation of deferred tax assets (2020: £181 million of the total deferred tax assets of £199 million; 2019: £180 million of £209 million) *Refer to page 49 (Audit Committee Report), page 112 (accounting policy) and pages 145 to 147 (financial disclosures).*	**Forecast-based assessment:** The recoverability of the recognised deferred tax asset is dependent on the future profitability of the UK business and Royal & Sun Alliance Insurance plc as the taxable legal entity, in particular. There is inherent uncertainty involved in developing the operational plan upon which forecast future taxable profits are based and further judgement in assessing to what extent the deferred tax assets can be recovered against those forecast taxable profits. These forecasts determine the extent to which deferred tax assets are or are not recognised in the financial statements. The effect of these matters is that, as part of our risk assessment, we determined that the recoverable amount of deferred tax assets has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (note 31) disclose the sensitivity estimated by the Group.	Our procedures included: · **Historical comparisons:** Assessing the accuracy of the Group's approved operating plan in relation to the forecasting process in the past. We considered whether projected margins are achievable with reference to the business's recent performance and operating plans; · **Our experience:** Assessing the appropriateness of the assumptions in the Group's approved operating plan based on our own knowledge and experience of the business; · **Sensitivity analysis:** Sensitivity analysis of taxable profits to assumptions such as expected weather losses, the development of claims reserves, projected future expense levels, future investment returns, and the projection period used for the forecast taxable profit; · **Our tax expertise:** With the support of our own tax specialists and their knowledge of tax legislation, we also assessed the extent to which projected profits were taxable, in particular the Group's assumptions about how accumulated tax losses and other similar items can be utilised within the Group against the UK business, and Royal & Sun Alliance Insurance plc as the taxable legal entity, in particular; · **Assessing transparency:** Assessing the adequacy of the Group's disclosures in respect of the assumptions applied in the calculation and the adequacy of the Group's disclosures in respect of the sensitivity of the valuation of the deferred tax asset to key assumptions. We performed the tests above rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. Having found the estimate to be at the high end of a reasonable range, we exercised judgement to determine the acceptability of the amount recognised, and the clarity of the associated disclosure of the sensitivity of key assumptions. **Our results** · We found the valuation of deferred tax assets recognised to be acceptable (2019 result: acceptable).
Valuation of parent company's investment in subsidiaries (2020: £6,276 million; 2019: £4,986 million) *Refer to page 177 (accounting policy) and page 179 (financial disclosures).*	**Low judgement, high value:** The carrying amount of the parent company's investments in subsidiaries represents 71% (2019: 67%) of the company's total assets. The valuation is not subject to significant judgement, however, there is estimation in the adjusting item which is dependent on assumptions of future cash flows discounted to present value. Due to its materiality in the context of the parent company financial statements, this is considered to be the area that had the greatest effect on our overall parent company audit.	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; · **Internal consistency:** In respect of the adjusting items, we compared the expected cash flows to the Group's approved operating plan and considered the historical accuracy of previous projections; · **Tests of detail :** We independently recalculated the weighted average cost of capital used to discount the cash flows to determine the value of the adjusting items. We performed the tests above rather than seeking to rely on any of the Company's controls because the nature of the balance is such that we would expect to obtain audit evidence through the detailed procedures described. **Our results** · We found the assessment of the valuation of the parent company's investment in subsidiaries to be acceptable (2019 result: acceptable).

We previously reported a key audit matter in relation to the Group's IT systems and control environment, and we continue to perform procedures over this matter. Further to our identification of deficiencies in certain controls in the prior years, we have not sought to place significant reliance on the operation of IT controls designed to mitigate the risk of failure to transfer data appropriately or the risk of inappropriate changes being made to data and systems. We have addressed these risks through performing additional substantive testing over and above that which would be required if reliance could be placed on IT controls. As we do not seek to place reliance on these controls, we have not assessed IT controls as one of the areas of most significance in our current year audit and, therefore, it is not separately identified as a key audit matter in our report this year.

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

Materiality for the group financial statements as a whole was set at £35m (2019: £35m), determined with reference to a benchmark of net earned premiums (of which it represents 0.6% (2019: 0.5%)).

We continue to consider net earned premiums to be the most appropriate benchmark and 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 premiums would be, and provides a more stable measure year on year than group profit before tax.

Materiality for the parent company financial statements as a whole was set at £32.0m (2019: £31.5m), which is capped at 90% of Group materiality and with reference to net assets represents 0.4% (2019: 0.5%).

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

Performance materiality for the group was set at 65% (2019: 65%) of materiality for the financial statements as a whole, which equates to £22.8m (2019: £22.8m). We applied this percentage in our determination of performance materiality based on the level of identified control deficiencies during the prior period and the number of areas of significant judgement in the audit.

Performance materiality for the parent company was set at 75% (2019: 75%) of materiality, which equates to £24.0m (2019: £23.6m). We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk for the parent company.

In addition, we applied materiality of 0.1p (2019: 0.1p) to the disclosure of Earnings per share, for which we believe misstatements of lesser amounts than materiality for the financial statements as a whole could be reasonably expected to influence the company's members' assessment of the financial performance of the group.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £1.75m (2019: £1.75m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the group's seven (2019: nine) reporting components, we subjected those located in the UK, Canada and Scandinavia to full scope audits for group purposes. The Ireland component previously in scope for full audit procedures was reduced to specific risk-focused audit procedures relating to insurance liabilities and cash during the year. Specified risk-focused audit procedures were also performed over investments in the parent company component. Both the Ireland and parent company components were 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. 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 of the group’s results illustrated opposite. For the residual 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 materialities, which ranged from £10m to £28m (2019: £8m to £28m), having regard to the mix of size and risk profile of the Group across the components. The audit procedures over the Canada, Scandinavia and Ireland components (2019: all components) was performed by component auditors and the audit procedures over the UK component and the specified risk-focused audit procedures over the parent company was performed by the Group team.

The Group team visited nil (2019: four) component locations (2019: UK, Ireland, Canada and Denmark) during the year due to travels restrictions as a result of the pandemic and instead increased the virtual interactions with component teams. Video and telephone conference meetings were held with the component auditors and local management since they were not physically visited. At these 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.

4. Going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group's and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over 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").

We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its 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, potentially caused by impacts of the Covid-19 pandemic;
- a deterioration in claims experience, potentially caused by market wide catastrophe event(s) including impacts of the Covid-19 pandemic;
- a deterioration in the valuation of the Group's investments arising from a significant change in the economic environment; and
- a decrease in the Group's net pension surplus.

We also considered less predictable but realistic second order impacts, such as the impact of non-completion of the proposed takeover bid received by the Group.

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

Our procedures also included:

- Consideration of specific scenarios that could reasonably arise in relation to the Covid-19 pandemic or implications of the proposed takeover transaction, and assessing the assumptions applied by management in relation to these scenarios.
- We considered whether the going concern disclosure in note 1 to the financial statements gives a full and accurate description of the directors' assessment of going concern, including the identified risks, dependencies, and related sensitivities.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statement s is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period;
- we have nothing 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 the going concern period, and we found the going concern disclosure in note 1 to be acceptable; and
- the same statement under the Listing Rules is materially consistent with the financial statements and our audit knowledge.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Company will continue in operation.

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

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, the audit committee, internal audit and management and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board, Audit Committee and Risk Committee minutes.
- Considering remuneration incentive schemes and performance targets for management and directors.
- Using professionals with forensic knowledge to assist us in identifying fraud risks and designing appropriate procedures based on discussions of the circumstances of the Group and Company.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the group to full scope component audit teams of relevant fraud risks identified at the Group level and request to full scope component audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement at group.

As required by auditing standards, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that estimated premium is valued incorrectly or recorded in the wrong period and the risk that Group and component management may be in a position to make inappropriate accounting entries, and the risk of bias in accounting estimates and judgements such as premium adjustments, including premium estimates.

We identified fraud risks related to the valuation of insurance liabilities, the valuation of deferred tax assets and the valuation of intangible assets, in response to the level of estimation and judgement in these balances and possible pressures to meet profit targets. We also identified fraud risks in respect of the historic debtor reconciliation issues identified in Sweden. Further detail in respect of these areas is set out in the key audit matter disclosures in section 2 of this report.

We performed procedures including:

- Identifying journal entries to test for all full scope components, based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management and those posted to unusual accounts.
- Assessing significant accounting estimates for bias.

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

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

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

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group to full scope component audit teams of relevant laws and regulations identified at Group level, and a request for full scope component auditors to report to the group team any instances of non-compliance with laws and regulations that could give rise to a material misstatement at group.

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

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

Secondly, the 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, conduct regulation 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. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

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

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

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

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of emerging and principal risks and longer-term viability

We are required to perform procedures to identify whether there is a material inconsistency between the directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge.

Based on those procedures, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the Viability Statement (page 88) that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and how emerging risks are identified, 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.

We are also required to review the Viability Statement, set out on page 88 under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the financial statements and our audit knowledge.

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 judgements 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 perform procedures to identify whether there is a material inconsistency between the directors' corporate governance disclosures and the financial statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the financial statements and our audit knowledge:

- 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;
- the section of the annual report describing the work of the Audit Committee, including the significant issues that the audit committee considered in relation to the financial statements, and how these issues were addressed; and
- the section of the annual report that describes the review of the effectiveness of the Group's risk management and internal control systems.

We are required to review the part of Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review. We have nothing to report in this respect.

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

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

- adequate accounting records have not been kept 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.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 93, 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 error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

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

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

Salim Tharani (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square
London
E14 5GL

25 February 2021

Consolidated income statement

For the year ended 31 December 2020

	Note	2020 £m	2019 £m
Income			
Gross written premiums		**7,282**	7,461
Less: reinsurance written premiums		**(1,059)**	(1,044)
Net written premiums	9	**6,223**	6,417
Change in the gross provision for unearned premiums		**6**	34
Change in provision for unearned reinsurance premiums		**(30)**	11
Change in provision for net unearned premiums		**(24)**	45
Net earned premiums		**6,199**	6,462
Net investment return	10	**217**	296
Other operating income	12	**130**	140
Total income		**6,546**	6,898
Expenses			
Gross claims incurred		**(4,521)**	(5,059)
Less: claims recoveries from reinsurers		**631**	727
Net claims	11	**(3,890)**	(4,332)
Underwriting and policy acquisition costs		**(1,936)**	(1,919)
Unwind of discount and change in economic assumptions	39	**(39)**	(46)
Other operating expenses	13	**(160)**	(64)
		(6,025)	(6,361)
Finance costs	14	**(33)**	(32)
Loss on disposal of businesses	7	**(6)**	(14)
Net share of profit after tax of associates		**1**	1
Profit before tax	9	**483**	492
Income tax expense	18	**(119)**	(109)
Profit for the year		**364**	383
Attributable to:			
Owners of the Parent Company		**345**	359
Non-controlling interests		**19**	24
		364	383
Earnings per share on profit attributable to the ordinary shareholders of the Parent Company			
Basic	20	**30.9p**	32.6p
Diluted	20	**30.8p**	32.5p
Ordinary dividends paid and proposed for the year			
Interim dividend paid	21	**8.0p**	7.5p
Final dividend proposed[1]	21	**–**	15.6p

1. The 2019 proposed final dividend of 15.6p was suspended. Refer to note 21 for further information.

The attached notes on pages 107 to 173 form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income
For the year ended 31 December 2020

	Note	2020 £m	2019 £m
Profit for the year		**364**	383
Items that may be reclassified to the income statement:			
Exchange gains/(losses) net of tax on translation of foreign operations	22	**55**	(85)
Fair value gains on available for sale financial assets net of tax	22	**98**	121
		153	36
Items that will not be reclassified to the income statement:			
Pension – remeasurement of net defined benefit asset/liability net of tax	22	**(25)**	(86)
Movement in property revaluation surplus net of tax	22	**–**	1
		(25)	(85)
Total other comprehensive income/(expense) for the year	22	**128**	(49)
Total comprehensive income for the year		**492**	334
Attributable to:			
Owners of the Parent Company		**478**	316
Non-controlling interests		**14**	18
		492	334

The attached notes on pages 107 to 173 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity
For the year ended 31 December 2020

	Ordinary share capital £m	Ordinary share premium £m	Own shares £m	Preference shares £m	Tier 1 notes £m	Revaluation reserves £m	Capital redemption reserve £m	Foreign currency translation reserve £m	Retained earnings £m	Equity attributable to owners of the Parent Company[1] £m	Non-controlling interests £m	Total equity £m
Balance at 1 January 2019	1,027	1,087	(1)	125	297	152	389	36	971	4,083	168	4,251
Implementation of IFRS 16	–	–	–	–	–	–	–	–	(2)	(2)	–	(2)
Restated balance at 1 January 2019	1,027	1,087	(1)	125	297	152	389	36	969	4,081	168	4,249
Total comprehensive income												
Profit for the year	–	–	–	–	–	–	–	–	359	359	24	383
Other comprehensive income/(expense) (note 22)	–	–	–	–	–	107	–	(64)	(86)	(43)	(6)	(49)
	–	–	–	–	–	107	–	(64)	273	316	18	334
Transactions with owners of the Group												
Contribution and distribution												
Dividends (note 21/36)	–	–	–	–	–	–	–	–	(242)	(242)	(13)	(255)
Shares issued for cash (note 34)	1	3	–	–	–	–	–	–	–	4	–	4
Share-based payments (note 19/34)	4	–	–	–	–	–	–	–	6	10	–	10
Transfers	–	–	1	–	–	–	–	2	(3)	–	–	–
	5	3	1	–	–	–	–	2	(239)	(228)	(13)	(241)
Balance at 1 January 2020	**1,032**	**1,090**	**–**	**125**	**297**	**259**	**389**	**(26)**	**1,003**	**4,169**	**173**	**4,342**
Total comprehensive income												
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**345**	**345**	**19**	**364**
Other comprehensive income/(expense) (note 22)	**–**	**–**	**–**	**–**	**–**	**112**	**–**	**46**	**(25)**	**133**	**(5)**	**128**
	–	**–**	**–**	**–**	**–**	**112**	**–**	**46**	**320**	**478**	**14**	**492**
Transactions with owners of the Group												
Contribution and distribution												
Dividends (note 21/36)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(108)**	**(108)**	**(13)**	**(121)**
Shares issued for cash (note 34)	**1**	**5**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**6**	**–**	**6**
Share-based payments (note 19/34)	**2**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**17**	**19**	**–**	**19**
	3	**5**	**–**	**–**	**–**	**–**	**–**	**–**	**(91)**	**(83)**	**(13)**	**(96)**
Changes in shareholders' interests in subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(8)**	**(8)**
Total transactions with owners of the Group	**3**	**5**	**–**	**–**	**–**	**–**	**–**	**–**	**(91)**	**(83)**	**(21)**	**(104)**
Balance at 31 December 2020	**1,035**	**1,095**	**–**	**125**	**297**	**371**	**389**	**20**	**1,232**	**4,564**	**166**	**4,730**

1. Equity attributable to owners of the Parent Company is a new sub total and includes Tier 1 notes. This has replaced the shareholders equity sub total disclosed in the 2019 Annual Report and Accounts, which did not include Tier 1 notes.

The attached notes on pages 107 to 173 form an integral part of these consolidated financial statements.

Consolidated statement of financial position

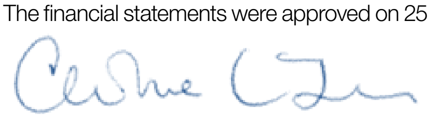
As at 31 December 2020

	Note	2020 £m	2019 £m
Assets			
Goodwill and other intangible assets	23	**868**	837
Property and equipment	24	**237**	296
Investment property	25	**285**	300
Investments in associates		**5**	4
Financial assets	26	**11,826**	11,422
Total investments		**12,116**	11,726
Reinsurers' share of insurance contract liabilities	29	**2,340**	2,326
Insurance and reinsurance debtors	30	**2,989**	2,923
Deferred tax assets	31	**199**	209
Current tax assets	31	**23**	18
Other debtors and other assets	32	**840**	718
Other assets		**1,062**	945
Cash and cash equivalents	33	**1,094**	909
Total assets		**20,706**	19,962
Equity and liabilities			
Equity			
Equity attributable to owners of the Parent Company[1]		**4,564**	4,169
Non-controlling interests		**166**	173
Total equity		**4,730**	4,342
Liabilities			
Issued debt	37	**751**	750
Insurance contract liabilities	39	**12,614**	12,307
Insurance and reinsurance liabilities	40	**932**	970
Borrowings	38	**132**	169
Deferred tax liabilities	31	**105**	84
Current tax liabilities	31	**40**	17
Provisions	42	**172**	147
Other liabilities	43	**1,230**	1,176
Provisions and other liabilities		**1,547**	1,424
Total liabilities		**15,976**	15,620
Total equity and liabilities		**20,706**	19,962

1. Consistent with the consolidated statement of changes in equity, equity attributable to owners of the Parent Company is a new line item, which combines the shareholders equity and Tier 1 notes line items that were disclosed in the 2019 Annual Report and Accounts.

The attached notes on pages 107 to 173 form an integral part of these consolidated financial statements.

The financial statements were approved on 25 February 2021 by the Board of Directors and are signed on its behalf by:



Charlotte Jones
Group Chief Financial Officer

Consolidated statement of cash flows
For the year ended 31 December 2020

	Note	2020 £m	2019 £m
Cash flows from operating activities			
Cash generated from operating activities	45	**661**	513
Tax paid		**(87)**	(35)
Net cash flows from operating activities		**574**	478
Cash flows from investing activities			
Proceeds from sales or maturities of:			
Financial assets		**3,244**	3,106
Intangible assets		**1**	–
Subsidiaries and associates (net of cash disposed of)		**3**	14
UK Legacy		**–**	(8)
Purchase of:			
Financial assets		**(3,261)**	(3,346)
Property and equipment	24	**(23)**	(8)
Intangible assets	23	**(122)**	(145)
Net cash flows from investing activities		**(158)**	(387)
Cash flows from financing activities			
Proceeds from issue of share capital		**6**	4
Proceeds from issue of debt	37/46	**–**	348
Dividends paid to ordinary shareholders	21	**(83)**	(219)
Coupon payment on Tier 1 notes	21	**(16)**	(14)
Dividends paid to preference shareholders	21	**(9)**	(9)
Dividends paid to non-controlling interests	36	**(13)**	(13)
Redemption of debt instruments	46	**–**	(39)
Payment of lease liabilities	46	**(44)**	(43)
Net movement in other borrowings	46	**(33)**	43
Interest paid	46	**(33)**	(33)
Net cash flows from financing activities		**(225)**	25
Net increase in cash and cash equivalents		**191**	116
Cash and cash equivalents at the beginning of the year		**886**	781
Effect of changes in foreign exchange on cash and cash equivalents		**6**	(11)
Cash and cash equivalents at the end of the year	33	**1,083**	886

The attached notes on pages 107 to 173 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, Europe, 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 Accounting Standards (IAS) in conformity with the requirements of the Companies Act 2006 and in accordance with International Financial Reporting Standards (IFRS) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The consolidated financial statements are prepared on an historical cost basis. Where other bases are applied, these are identified in the relevant accounting policy.

The Board has made an assessment of going concern covering a period of at least 12 months from the date of approval of these financial statements. The Board's assessment included the review of Group's strategic plans and updated forecasts, capital position, liquidity including credit facilities and investment portfolio, which are based on the Group continuing to operate on a standalone basis and reflects the Group's assessment of the impact of the current challenging economic environment. The review included significant stress testing, including extreme downside scenarios and a reverse stress test. Scenarios considered include significant deteriorations in market and credit conditions, and severe claims events from catastrophe losses. In making their assessment, the Board have considered the impact of the recent UK Supreme Court decision on business interruption losses, including the availability of reinsurance to recover incurred claims.

The assessment also considered the impact of the offer to buy RSA should the deal complete or fall away. If the deal completes the board expects restructuring of the Group to occur, but considers that the ability of the Parent Company and operating businesses to continue as a going concern will not be adversely affected.

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 twelve months, from both the date of the consolidated statement of financial position and the approval of the consolidated financial statements.

In line with industry practice, the Group's consolidated statement of financial position is not presented using current and non-current classifications, but broadly in increasing order of liquidity.

The assets and liabilities considered as non-current include: investments in associates, deferred tax assets, property and equipment, intangible assets, goodwill, deferred tax liabilities, outstanding debt including issued debt and elements of financial investments, insurance contract liabilities and reinsurers' share of insurance contract liabilities.

The assets and liabilities considered as current include cash and cash equivalents, insurance and reinsurance debtors, and elements of financial investments, insurance contract liabilities and reinsurers' share of insurance contract liabilities.

The remaining balances are of a mixed nature. The current and non-current portions of such balances are in the notes on pages 107 to 173 or in the risk and capital management note (note 6).

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 5 with other policies presented in Appendix A. The notes are grouped together by their nature.

Basis of preparation and significant accounting policies continued

2) Significant accounting estimates and judgments

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

Estimates and their underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively. In 2020, the Covid-19 global pandemic has had a significant impact on market conditions and our business. Where an estimate has been impacted by Covid-19, additional disclosure has been provided in the relevant note.

The most significant estimates are described below. Additional information on estimation techniques and assumptions is presented in the relevant note in order to provide context to the figures presented.

- Valuation of insurance contract liabilities: the assumptions used in the estimation of the eventual outcome of the claim events that have occurred but remain unsettled at the end of the reporting period. Covid-19 has increased the level of estimation uncertainty with key assumptions impacted, such as frequency, severity and claims development patterns. There is also increased uncertainty relating to the valuation of Covid-19 business interruption (BI) claims. The initial assessed impact of the UK Supreme Court judgement on 15 January 2021 on BI policy wording, and the initial assessed impact of the FBD court judgement in Ireland announced on 5 February 2021, has been included in the actuarial indication of ultimate losses. The ultimate liability could be materially different from the current estimate as legal interpretations and regulatory expectations develop and clarify the criteria for eligible claims, further information becomes available with regard to the number of eligible claimants who meet the required claim criteria, and the extent to which losses are recoverable under reinsurance contracts which depends upon the extent to which reinsurance responds in the manner the Company expects. Outside UK&I, litigation is underway in Scandinavia and Canada that could give rise to a change in assessed cost should the outcome be different to our expectation. Refer to note 39 for additional information.
- Measurement of defined benefit obligations: the use of key actuarial assumptions, such as discount rates, inflation rates and mortality rates. Refer to note 41 for additional information.
- Recognition of deferred tax assets: availability of future taxable profits against which deductible temporary differences and tax losses carried forward can be utilised. Forecast future taxable profits include the potential impact of Covid-19. The proposed takeover of RSA has increased the level of uncertainty in forecast profits, however this has not been taken into account when valuing the deferred tax asset at 31 December 2020 as there is no certainty over what actions or decisions the purchaser may take if the acquisition completes. Sensitivities have been used to assess the impact of changes in the key assumptions supporting profit forecasts, and further specific downside scenarios have been modelled in the current year to capture the heightened estimation uncertainty in the established profit forecast due to the current economic environment. Refer to note 31 for additional information.
- Valuation of level 3 financial assets and investment properties: use of significant unobservable inputs. The current ongoing economic uncertainty means that asset valuation techniques that rely on unobservable inputs have a greater degree of estimation uncertainty. Refer to note 27 for additional information.
- Measurement and impairment of goodwill and intangible assets: key assumptions applied in the valuation of the recoverable amount and the estimation of useful economic life. The value in use calculations are based on management's latest operational plans, which include the expected future impact of Covid-19. The proposed takeover of RSA has increased the level of uncertainty in forecast profits although possible impacts have not been included within value in use calculations as there is no certainty over what actions or decisions the purchaser may take if the acquisition completes. Due to increased uncertainty caused by Covid-19 and the offer to buy RSA, a range of downside scenarios to the plan have been considered. Refer to note 23 for additional information.

The areas where management has applied judgment are as follows:

- Classification of financial assets in the fair value hierarchy: management apply judgment when deciding to classify financial instruments for which immediate prices are available as being level 1 in the fair value hierarchy and financial assets for which observable prices are also available as level 2 on the basis of a lower level of activity in the market from which those prices are quoted. The level of trading activity in certain markets has been impacted by Covid-19 and the classification has been reviewed and updated accordingly. Refer to note 27 for additional information.
- Impairment of financial assets: determining if there is objective evidence of impairment requires judgment and in the year to 31 December 2020, **£32m** of impairments have been recognised (note 10). The value of unrealised losses in the revaluation reserve at 31 December 2020 is **£84m** (31 December 2019: £73m).

The Group Audit Committee reviews the reasonableness of significant judgments and estimates. The issues considered by the Group Audit Committee are included within the Group Audit Committee Report on pages 49 and 50.

3) Adoption of new and revised accounting standards

There are a small number of narrow scope amendments to standards that are applicable to the Group for the first time in 2020, none of which have had a significant impact on the consolidated financial statements.

4) New accounting standards, interpretations and amendments yet to be adopted

Transition from EU-adopted IAS to UK-adopted IAS

At the end of the Brexit Transition Period, SI 2019/685 brings the International Accounting Standards (IAS) already endorsed in the EU into UK law as 'UK-adopted international accounting standards'. UK entities are required to apply UK-adopted IAS for financial years beginning after 31 December 2020 with the option to early adopt. The Group has chosen not to early adopt and will apply UK-adopted IAS from 1 January 2021. As there are no changes when applying UK-adopted IAS, there will be no impact on the Group.

IFRS 17 'Insurance Contracts'

The International Accounting Standards Board (IASB) issued IFRS 17 'Insurance Contracts' (IFRS 17) in May 2017, which was revised in June 2020 (aimed at helping companies implement the Standard and making it easier for them to explain their financial performance), to replace IFRS 4 'Insurance Contracts' (IFRS 4) for annual reporting periods beginning, at the latest, on or after 1 January 2023.

The effective date for IFRS 17 is two years later than in the original version and an equivalent change has been made to IFRS 4 to extend the exemption from applying IFRS 9 'Financial Instruments' (IFRS 9).

The standard has not yet been endorsed for use in the UK and the Group is monitoring this process closely.

Detailed build and testing of systems and processes to implement IFRS 17 is in progress and is on track to complete in 2021. Parallel run testing of reporting is scheduled to take place in 2022 to assure reporting compliance by 1 January 2023. The implementation plans have taken into account the changes in the revised standard issued in June and contingency planning has been considered in the event that the endorsement process adds any further delay to implementation after 2023.

It is not yet possible to quantify the impact that implementing IFRS 17 will have on the measurement of insurance, reinsurance and related transactions and balances.

IFRS 9 'Financial Instruments'

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

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

Implementation plans have been updated to reflect the amended effective date and are on track.

Information required by IFRS 4 when applying the temporary exemption can be found in note 26 and note 6.

Other standards

There are a number of amendments to IFRS that have been issued by the IASB that become mandatory in subsequent accounting periods. The Group has evaluated these changes and none are expected to have a significant impact on the consolidated financial statements.

5) 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.

There have been no significant changes to the Group's accounting policies during 2020.

Premium income

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

Insurance receivables

Premium receivables due from policyholders or intermediaries at the end of the reporting period are presented within insurance and reinsurance debtors in the consolidated statement of financial position. 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 insurance contract. Impairment losses for non-recoverable amounts are charged to underwriting and policy acquisition costs in the consolidated income statement and directly reduce the carrying amount of insurance debtors in the consolidated statement of financial position.

Basis of preparation and significant accounting policies continued

5) Significant accounting policies continued

Gross claims incurred and insurance contract liabilities

Gross claims incurred represent the cost of agreeing and settling insurance claims on insurance contracts underwritten by the Group. Provisions for losses and loss adjustment expenses are recognised at the estimated ultimate cost, net of expected salvage and subrogation recoveries when a claim is incurred.

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

Differences between the estimated cost and subsequent settlement of claims or re-estimated costs are recognised in the consolidated income statement in the year in which they are settled or in which the insurance contract liabilities are re-estimated.

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

At the end of each reporting period tests are performed to ensure the adequacy of the Group's insurance contract liabilities by considering the cash flows associated with the provision for unearned premium net of related DAC. In performing these tests, best estimates of future contractual cash flows, including loss adjustment and administrative expenses as well as investment income on financial assets backing such liabilities are used. Any deficiency is charged to the consolidated income statement immediately by establishing a provision for liability adequacy known as the unexpired risk provision. The requirement for an unexpired risk provision is assessed in aggregate for business classes which are managed together and where there are no restraints on the ability to use assets held in relation to such business to meet any of the associated liabilities.

Further information on net claims can be found in note 11, and insurance contract liabilities in note 39.

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 sheet on a gross basis to present the exposure to credit risk related to third party reinsurance. The amount recoverable is reduced when there is an event arising after the initial recognition that provides objective evidence that the 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 29.

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
- 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 26, 27 and 28.

5) 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)
Available for sale (AFS)	Debt securities, equity securities	Where the investment return on equity or debt securities is managed on the basis of the periodic cash flows arising from the investment	Fair value using prices at the end of the period	Other comprehensive income – unrealised gains/(losses) Income statement – net investment gains/(losses) when realised or impaired
Cash and cash equivalents	Cash and cash equivalents	Consist of cash and highly liquid investments that are readily convertible into a known amount of cash, are subject to insignificant risk of changes in value and have a maturity date of 90 days or less from the date of acquisition	Carrying amounts at amortised cost	
Loans and receivables	Loans, reinsurance deposits, other deposits and financial assets arising from non-investment activities, and loans made for investment purposes	Financial assets with fixed or determinable payments not quoted in an active market	Amortised cost using the effective interest method	Income statement – net investment gains/(losses) when realised or impaired
Financial liabilities	Other borrowings	Financial liabilities with fixed or determinable payments	Amortised cost using the effective interest method	Income statement – net investment gains/(losses) when settled
	Issued debt	Financial liabilities with fixed or determinable payments and maturity date	Amortised cost using the effective interest method	Income statement – net investment gains/(losses) when settled
Derivative assets/ (liabilities) not designated as hedging instruments	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)
Derivatives designated as hedging instruments	Derivative assets/(liabilities) designated as hedging instruments	Hedge of a net investment in a foreign operation or hedge of future cash flows or hedge of fair value of fixed interest securities	Carried at fair value Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative	Hedge of future cash flows – effective portion is initially recognised in other comprehensive income (OCI); subsequently recognised in the income statement when the hedged cash flows affect profit or loss Hedge of a net investment in a foreign operation – effective portion is recognised in OCI, ineffective portion is immediately recognised in the income statement Hedge of fair value – recognised in the income statement. The change in fair value of the hedged investments (classified as AFS) attributable to the hedged risk is transferred from the revaluation reserve to the income statement

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 10.

5) Significant accounting policies continued

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.

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

An impairment loss in respect of debt instruments is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate of the instrument and is recognised in the consolidated income statement. Interest on the impaired asset continues to be recognised using the effective interest rate method.

An equity security is considered impaired if there is objective evidence that the cost may not be recovered. In addition to qualitative impairment criteria, a significant or prolonged decline in fair value below cost is considered as indication of potential impairment. Impairment is considered to have occurred when the decline in fair value relative to cost has been more than 30% for a continuous twelve-month period. Unless there is evidence to the contrary, an equity security is also considered impaired when the decline in fair value relative to cost is more than 40% at the end of the reporting period, or when it has been in an unrealised loss position for a continuous fifteen-month period. Where there is objective evidence that impairment exists, the cumulative unrealised loss previously recognised in other comprehensive income is reclassified to the 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 10.

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

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

Deferred tax is provided in full using the liability method on temporary differences arising between the tax bases of assets and liabilities and the carrying amounts in the 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.

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

Post-employment benefits and obligations

The Group operates both defined contribution and defined benefit schemes.

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

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

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

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

5) Significant accounting policies continued

The amounts charged (or credited where relevant) in the consolidated income statement relating to post-employment defined benefit schemes are as follows:

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

Remeasurements of the net defined benefit liability/asset recognised in other comprehensive income comprises actuarial gains and losses as a result of changes in assumptions and experience adjustments in the calculation of the defined benefit obligation, and return on scheme assets excluding interest during the year. The most significant of these is the selection of the discount rate used to calculate the defined benefit obligation, details of which are set out in note 41.

Goodwill and other intangible assets

Goodwill

Goodwill is the difference between the cost of a business acquisition and the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Goodwill is initially capitalised in the consolidated statement of financial position at cost and is subsequently recognised at cost less accumulated impairment losses (see below). The cost of the acquisition is the amount of cash paid and the fair value of other purchase consideration.

Customer related intangible assets

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

Customer related intangible assets comprise acquired renewal rights and customer lists. The useful economic lives are generally between one and ten years and are estimated considering relevant metrics such as customer retention rates and contract length. The asset is amortised on a basis which reflects usage of economic benefit.

Internally developed and externally acquired software

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

Further information on goodwill and other intangibles can be found in note 23.

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

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

Goodwill, other intangible assets, and internally developed and externally acquired software are allocated to cash generating units (CGUs) for the purpose of impairment testing. When testing for impairment, the recoverable amount of a CGU is determined based on value in use calculations. Further information on how the value in use is calculated can be found in note 23.

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.

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. Reorganisation costs that are uncertain in terms of their amount and timing are included within provisions (see note 42).

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 8.

6) 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, claims management issues or policy wording interpretation 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 strategy is dependent on being able to secure reinsurance cover on appropriate commercial and contractual terms and the nature of the programme presents risks in that recoveries are contingent on the particular pattern of losses and aggregation across the Group.

The 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. This is especially true when there is a material change in circumstances near the end of the reporting period such as the UK Supreme Court judgement on 15 January 2021 and the Ireland court judgement on 5 February 2021.

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 reviews these local submissions and recommends 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 judgments 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 judgment, the committee considers the following information:

- Emerging trends where Covid-19 has caused changes in experience along with analysis to demonstrate the impact on reserving estimates. Some areas such as business interruption, travel and wedding and events have observed direct claims, whereas many other lines have seen material indirect changes in policyholder behaviour such as reduced motor frequency during lockdown. Changes in experience such as reduced claims frequency can result in a different mix or magnitude of claims and, therefore, exhibit different claims and runoff characteristics compared to historic experience.
- Material changes in the external claims environment in areas such as legal and medical activities which impact the speed of claims development have also been considered. The distortions in data caused by the various issues means identification of trends is more difficult than normal and results in increased uncertainty relating to actuarial indications of ultimate losses.
- The estimated impact of the Supreme Court judgement on 15 January 2021 relating to BI policy wording for Covid-19 is included in the actuarial indication of ultimate losses. Given the timing, the actuarial indication is based on initial interpretations of the judgement and modelling of expected numbers and value of eligible claims within the insured population. Work to fully understand the various implications will continue in future months as claims profiles mature, and regulatory and legal interpretations develop.

6) 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 2020, these risks and developments include: the possibility of future legislative change having a retrospective effect on open claims or changes in interpretation or regulatory application of existing legislation; changes in claims settlement 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 as we expect 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 both external actuarial consultants and 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. RSA ensures that assets are broadly matched in duration and currency with insurance liabilities to hedge volatility. The Group's credit risk exposure is largely concentrated in its fixed income investment portfolio favouring high quality fixed income bonds reducing the risk of default. Also to a lesser extent credit risk exists in its premium receivables and reinsurance assets.

Credit risk is managed at both a Group level and at 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 that these exposures are within the risk appetite of the local operations. Exposure monitoring and reporting for fixed income investments and premium receivables is embedded throughout the organisation with aggregate credit positions reported and monitored at Group level. In addition, the Group's Credit Ratings Review Committee reviews the credit ratings of investments with a focus on material exposures and unrated investments.

The Group's credit risk appetite and credit risk policy are developed by the BRC and are reviewed and approved by the Board on an annual basis, to ensure limits remain within its quantitative appetite. This is done through the setting of Group policies, procedures and limits. Covid-19 has generated increased levels of market volatility increasing the risk of credit default and downgrade. The Group's strategy continues to be reviewed in light of Covid-19 developments and the frequency of engagement with the Group's fund managers has been increased.

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 has offered payment relief to customers experiencing financial difficulty as a result of Covid-19, and has increased credit risk monitoring to proactively manage the financial risk from the current economic environment and the provision for bad debts is being assessed on a regular basis.

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

The Group Reinsurance Credit Committee oversees the management of credit risk arising from the reinsurer failing to settle its liability to the Group. Group standards are set such that reinsurers that have a financial strength rating of less than 'A-' with Standard & Poor's, or a comparable rating, are rarely used and are excluded from the Group's list of approved reinsurers. The exceptions are fronting arrangements for captives, where some form of collateral is generally obtained, and some global network partners. At 31 December 2020 the extent of collateral held by the Group against reinsurers' share of insurance contract liabilities was **£36m** (2019: £36m), which in the event of a default would be called and recognised on the balance sheet.

The Group's use of reinsurance is sufficiently diversified that it is not concentrated on a single reinsurer, or any single reinsurance contract. The Group regularly monitors its aggregate exposures by reinsurer group against predetermined reinsurer group limits, in accordance with the methodology agreed by the BRC. The Group's largest reinsurance exposures to active reinsurance groups are Berkshire Hathaway, Lloyd's of London and Talanx. At 31 December 2020 the reinsurance asset recoverable from these groups does not exceed **3.9%** (2019: 4.1%) 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 **6.3%** (2019: 6.6%) of the Group's total financial assets.

6) Risk and capital management continued

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 2020

	Credit rating relating to financial assets that are neither past due nor impaired						
	AAA £m	**AA £m**	**A £m**	**BBB £m**	**<BBB £m**	**Not rated £m**	**Total financial assets that are neither past due nor impaired £m**
Debt securities	**4,978**	**2,026**	**2,295**	**1,288**	**107**	**4**	**10,698**
Of which would qualify as solely for payment of principal and interest (SPPI) under IFRS 9[1]	**4,977**	**2,006**	**2,065**	**1,159**	**91**	**4**	**10,302**
Loans and receivables[2]	**64**	**–**	**59**	**274**	**27**	**5**	**429**
Reinsurers' share of insurance contract liabilities	**–**	**670**	**1,554**	**58**	**34**	**21**	**2,337**
Insurance and reinsurance debtors[3]	**–**	**12**	**928**	**50**	**49**	**1,803**	**2,842**
Derivative assets	**–**	**1**	**15**	**78**	**–**	**31**	**125**
Other debtors	**–**	**–**	**21**	**17**	**–**	**140**	**178**
Cash and cash equivalents	**447**	**207**	**343**	**77**	**4**	**16**	**1,094**

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

As at 31 December 2019

	Credit rating relating to financial assets that are neither past due nor impaired						
	AAA £m	AA £m	A £m	BBB £m	<BBB £m	Not rated £m	Total financial assets that are neither past due nor impaired £m
Debt securities	5,030	2,148	2,053	1,000	179	1	10,411
Of which would qualify as SPPI under IFRS 9[1]	5,030	2,125	1,852	959	106	1	10,073
Loans and receivables[2]	70	–	29	210	23	6	338
Reinsurers' share of insurance contract liabilities	–	670	1,495	78	60	23	2,326
Insurance and reinsurance debtors[3]	11	17	922	42	47	1,723	2,762
Derivative assets	–	10	25	60	–	3	98
Other debtors	–	5	2	16	–	129	152
Cash and cash equivalents	364	250	261	28	–	6	909

1. The debt securities meeting SPPI criteria under IFRS 9 which are below investment grade are stated under IAS 39 at fair value.
2. Loans and receivables are measured using amortised cost and their carrying amounts are considered to be as approximate fair values.
3. The insurance and reinsurance debtors classified as not rated comprise personal policyholders and small corporate customers that do not have individual credit ratings. Credit risk of this balance is managed through close monitoring of ageing profiles and cover can be cancelled if payment isn't received in accordance with agreed credit terms.

With the exception of government debt securities, the largest single aggregate credit exposure does not exceed **2%** (2019: 3%) of the Group's total financial assets.

6) 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 2020

			Financial assets that are past due but not impaired						
	Note	**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	26	**10,698**	**–**	**–**	**–**	**–**	**26**	**10,724**	**8**
Loans and receivables	26	**429**	**–**	**–**	**–**	**–**	**–**	**429**	**–**
Reinsurers' share of insurance contract liabilities	29	**2,337**	**–**	**–**	**–**	**–**	**3**	**2,340**	**–**
Insurance and reinsurance debtors[1, 2]	30	**2,842**	**81**	**21**	**17**	**5**	**23**	**2,989**	**19**
Derivative assets	32	**125**	**–**	**–**	**–**	**–**	**–**	**125**	**–**
Other debtors	32	**178**	**2**	**2**	**3**	**–**	**–**	**185**	**–**
Cash and cash equivalents	33	**1,094**	**–**	**–**	**–**	**–**	**–**	**1,094**	**–**

1. Debtors with similar credit risk characteristics are collectively assessed for impairment with provisions being made based on past experience.
2. Included within impairment losses charged in the period is a **£10m** write off in relation to aged debtors in Sweden. Refer to note 30 insurance and reinsurance debtors for further details.

As at 31 December 2019

			Financial assets that are past due but not impaired						
	Note	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	26	10,411	–	–	–	–	–	10,411	–
Loans and receivables	26	338	–	–	–	–	–	338	–
Reinsurers' share of insurance contract liabilities	29	2,326	–	–	–	–	–	2,326	–
Insurance and reinsurance debtors[1, 2]	30	2,762	82	38	15	6	20	2,923	12
Derivative assets	32	98	–	–	–	–	–	98	–
Other debtors	32	152	23	–	6	1	–	182	–
Cash and cash equivalents	33	909	–	–	–	–	–	909	–

1. Financial assets that have been impaired have been restated from £nil to £20m to reflect amounts that were impaired in 2019 but disclosed within financial assets that are past due but not impaired.
2. Debtors with similar credit risk characteristics are collectively assessed for impairment with provisions being made based on past experience.

Market risk

Market risk is the risk of adverse financial impact resulting, directly or indirectly, from fluctuations 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.

2020 has seen significant market volatility and whilst financial markets have stabilised in the latter part of the year, longer term consequences remain unclear. However, RSA continues to prove resilient.

Market risk can be broken down into three key components:

i. Equity and property risk

At 31 December 2020 the Group held investments classified as AFS equity securities of **£673m** (2019: £673m). These include interests in structured entities (as disclosed in note 28) and other investments where the price risk arises from interest rate risk rather than from equity market price risk. The Group considers that within AFS equity securities, investments with a fair value of **£190m** (2019: £218m) 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 **£29m** (2019: £33m) in other comprehensive income.

6) Risk and capital management continued

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 **£43m** (2019: £45m) in the income statement and **£3m** (2019: £3m) in other comprehensive income.

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

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

ii. Interest rate risk

Interest rate risk arises primarily from the 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 2020, 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**	
	2021 £m	2020 £m	**2021 £m**	2020 £m
Increase in interest rate markets:				
Impact on fixed income securities and cash of an increase in interest rates of 100bps	**22**	19	**(440)**	(390)

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 2021 and 1 January 2020 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, swaps and foreign exchange options within predetermined limits set by the Group Board. In managing structural currency risk the needs of the Group's subsidiaries to maintain net assets in local currencies to satisfy local regulatory solvency and internal risk based capital requirements are taken into account.

At 31 December 2020, the Group's equity attributable to owners of the Parent Company deployed by currency was:

	Pounds Sterling £m	**Danish Krone/ Euro £m**	**Canadian Dollar £m**	**Swedish Krona £m**	**Other £m**	**Total £m**
Equity attributable to owners of the Parent Company at 31 December 2020	**2,579**	**782**	**822**	**142**	**239**	**4,564**
Equity attributable to owners of the Parent Company at 31 December 2019	2,496	531	645	114	383	4,169

Equity attributable to owners of the Parent Company is stated after taking account of the effect of currency forward contracts, swaps 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.

6) 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 equity attributable to owners of the Parent Company 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 equity attributable to owners of the Parent Company at 31 December 2020	**(71)**	**87**	**(75)**	**91**	**(13)**	**16**
Movement in equity attributable to owners of the Parent Company at 31 December 2019	(48)	59	(59)	72	(10)	13

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 or loss.

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 Group maintains additional liquidity facilities for contingency purposes. These facilities included uncommitted overdraft arrangements in each of the key operating entities, as well as the ability to enter repurchase agreements to cover short-term fluctuations in cash and liquidity requirements. In addition to these uncommitted arrangements the Group's Scandinavian subsidiary maintains a small committed revolving credit facility. As at December 2020 there had been no drawdowns under this facility (2019: £nil).

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 2020

	Note	Less than one year £m	One to two years £m	Two to three years £m	Three to four years £m	Four to five years £m	Five to ten years £m	Greater than ten years £m	Total £m	Carrying value in the statement of financial position £m
Subordinated guaranteed US$ bonds[1]	37	**–**	**–**	**–**	**–**	**–**	**7**	**–**	**7**	**6**
Senior notes due 2024[1]	37	**–**	**–**	**–**	**350**	**–**	**–**	**–**	**350**	**348**
Guaranteed subordinated notes due 2045[1]	37	**–**	**–**	**–**	**–**	**400**	**–**	**–**	**400**	**397**
Provisions for losses and loss adjustment expenses	39	**3,106**	**1,885**	**1,108**	**721**	**492**	**1,088**	**979**	**9,379**	**9,379**
Direct insurance creditors	40	**121**	**–**	**–**	**–**	**–**	**–**	**–**	**121**	**121**
Reinsurance creditors	40	**537**	**201**	**73**	**–**	**–**	**–**	**–**	**811**	**811**
Borrowings	38	**132**	**–**	**–**	**–**	**–**	**–**	**–**	**132**	**132**
Deposits received from reinsurers	43	**8**	**–**	**–**	**–**	**–**	**–**	**–**	**8**	**8**
Derivative liabilities	43	**32**	**–**	**–**	**2**	**4**	**2**	**105**	**145**	**145**
Lease liabilities[1]	43	**39**	**35**	**30**	**25**	**22**	**51**	**29**	**231**	**204**
Total		**3,975**	**2,121**	**1,211**	**1,098**	**918**	**1,148**	**1,113**	**11,584**	**11,551**
Interest on bonds and notes		**27**	**27**	**27**	**27**	**17**	**2**	**–**	**127**	

1. Maturity profile shown on an undiscounted basis.

6) Risk and capital management continued

As at 31 December 2019

	Note	Less than one year £m	One to two years £m	Two to three years £m	Three to four years £m	Four to five years £m	Five to ten years £m	Greater than ten years £m	Total £m	Carrying value in the statement of financial position £m
Subordinated guaranteed US$ bonds[1]	37	–	–	–	–	–	7	–	7	6
Senior notes due 2024[1]	37	–	–	–	–	350	–	–	350	348
Guaranteed subordinated notes due 2045[1]	37	–	–	–	–	–	400	–	400	396
Provisions for losses and loss adjustment expenses	39	2,878	1,761	1,160	713	514	1,149	966	9,141	9,141
Direct insurance creditors	40	126	1	–	–	–	–	–	127	127
Reinsurance creditors	40	576	195	72	–	–	–	–	843	843
Borrowings	38	169	–	–	–	–	–	–	169	169
Deposits received from reinsurers	43	11	–	–	–	–	–	–	11	11
Derivative liabilities	43	4	15	–	–	2	7	67	95	95
Lease liabilities[1]	43	45	45	43	32	26	70	31	292	258
Total		3,809	2,017	1,275	745	892	1,633	1,064	11,435	11,394
Interest on bonds and notes		27	27	27	27	27	19	–	154	

1. Maturity profile shown on an undiscounted basis.

The above maturity analysis is presented on a discounted basis, with the exception of issued debt and lease liabilities, for consistency with the consolidated statement of financial position and supporting notes.

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 37.

Pension risk

The Group is exposed to risks through its obligation to fund a number of schemes. These risks include market risk (assets not performing as well as expected), inflation risk and longevity risk over the lives of the members. The Group and trustees of the schemes work together to reduce these risks through agreement of investment policy including the use of interest rate, inflation rate and mortality swaps. Further information on the Group's management of pension risk is included within note 41.

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 equity attributable to owners of the Parent Company of **£4,564m** (2019: £4,169m) and subordinated loan capital of **£403m** (2019: £402m) and aims to maximise shareholder value, while maintaining financial strength and 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.

6) Risk and capital management continued

Regulatory solvency position during 2020

The Group has a Prudential Regulation Authority (PRA) approved Solvency II Internal Model which forms the basis of the primary Solvency II solvency capital ratio (SCR) measure. RSA operates a programme of continuous development in relation to the internal model and a Group-level regulatory approval was received in 2020 for the latest set of enhancements.

The Internal Model is used to support, inform and improve the Group's decision making across the Group. It is used to inform the Group's optimum capital structure, its investment and hedging strategy, its reinsurance programme, and pricing and target returns for each portfolio.

At 31 December 2020, the estimated SCR and corresponding eligible own funds were as follows:

	Unaudited 2020 £bn	Unaudited 2019[1] £bn
Eligible own funds	**3.2**	2.9
SCR	**1.7**	1.7
Coverage (unrounded)	**189%**	168%

1. 2019 eligible own funds included an accrual for the 2019 proposed final dividend, which was subsequently suspended and has not been paid. 2020 figures do not include a dividend accrual as no final dividend is being proposed. The 2019 eligible own funds excluding the dividend accrual is £3.1bn and the coverage ratio would have been 178%.

The impact on the Solvency II coverage ratio of a range of sensitivities is set out below:

Solvency II Sensitivities (change in coverage ratio)[1]:	**Unaudited 2020 Including pensions[2]**	**Unaudited 2020 Excluding pensions**
Interest rates: +1% non-parallel[3] shift	**6%**	**7%**
Interest rates: -1% non-parallel[3] shift	**-9%**	**-9%**
Equities: -15%	**-6%**	**-2%**
Property: -10%	**-3%**	**-2%**
Foreign exchange: GBP +10% vs all currencies	**-6%**	**-6%**
Cat loss of £75m net	**-4%**	**-4%**
Credit spreads: +0.25%[4] parallel shift	**-1%**	**-2%**
Credit spreads: -0.25%[4] parallel shift	**-9%**	**2%**

1. Sensitivities have been calibrated to a coverage ratio at 31 December 2020 that includes a dividend accrual, further adjusted for the UK pension contributions paid in January 2021.
2. The impact of pensions depends significantly on the opening position of the schemes and market conditions and as such should not be extrapolated.
3. The interest rate sensitivities assume 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.
4. The asymmetry in credit spread sensitivities reflects the fact that upside pension sensitivities are restricted to the surplus cap. Sensitivities reflect an assumed offset between the impact on assets held and the IFRS value of pension scheme obligations which could differ in practice.

The above sensitivities have been considered in isolation and 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. In particular, given the level of pension surplus at 31 December 2020, we would expect Group capital sensitivities to be broadly in line with the ex-pensions view above.

In Q1 2020, RSA were granted approval by the PRA to apply the Volatility Adjustment to the majority of the Group's Technical Provisions, which reduces the exposure of the Solvency II position to spread movements, and is reflected in the sensitivities above.

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. It is an alternative performance measure (APM) as defined in the APM Appendix on page 183.

	2020 £m	2019 £m
As at 1 January	**2,910**	2,867
Profit after tax[1]	**446**	443
Exchange gains/(losses) net of tax	**50**	(63)
Fair value gains net of tax	**97**	122
Pension fund losses net of tax	**(25)**	(86)
Dividends[2]	**(108)**	(242)
Goodwill and intangible additions and disposals	**(121)**	(143)
Other	**25**	12
As at 31 December	**3,274**	2,910

1. Profit after tax excludes amortisation and impairment of intangible assets.
2. Dividends includes **£9m** (2019: £9m) paid in relation to preference shares and **£16m** (2019: £14m) coupon payment on the Group's Tier 1 notes.

6) 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 interrelated activities by which it establishes:

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

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

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

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

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

There were two ORSA's during 2020. An ad hoc ORSA was triggered in response to Covid-19 events. This considered the UK business interruption court case together with Covid-19 impacts across all key risk categories – Market risk, Underwriting risk, Reserving risk and Credit risk. This also considered a refresh of the Group Recovery plan together with a Reverse Stress Test event. As a follow on from the July process an updated ORSA report was presented to the BRC in January 2021. This considered the year end 2020 position, refreshed stress scenario testing and aligned to the latest 3 year capital projections. The ORSA process during this cycle continues to demonstrate ongoing balance sheet strength and balance sheet resilience.

Significant transactions and events

7) Loss on disposal of businesses

In 2020, the loss of **£6m** includes **£5m** from the sale of the Group's 57.1% holding in British Aviation Insurance Company Limited.

In 2019, the net loss of £14m comprised of a £19m loss relating to the disposal of the UK Legacy business offset by a £4m gain on the sale of Caunce O'Hara & Company Limited. The £19m loss included a £15m additional contribution to Enstar Group Limited and £4m costs of disposal. The legal transfer of the UK Legacy liabilities was completed on 1 July 2019 after the transaction initially took the form of a reinsurance arrangement, effective from 31 December 2016.

8) Reorganisation costs

The UK restructuring programme initiated in 2019 has continued in 2020 with further changes to the organisational design through process improvements and other cost saving initiatives. The **£78m** incurred in 2020 (2019: £27m) (note 9/13) includes **£29m** in respect of redundancy (2019: £15m), **£17m** information systems outsourcing rationalisation (2019: £5m), **£16m** reduction in premises footprint (2019: £2m) and **£16m** other restructuring activity (2019: £5m).

Notes to the consolidated income statement, consolidated statement of comprehensive income and dividends

9) Segmental information

The Group's primary operating segments comprise Scandinavia, Canada, UK & International and Central Functions, which is consistent with how the Group is managed. The primary operating segments are based on geography and are all engaged in providing personal and commercial general insurance services. Central Functions include the Group's internal reinsurance function and Group Corporate Centre.

Each operating segment is managed by a member of the Group Executive Committee who is directly accountable to the Group Chief Executive and Board of Directors, who together are considered to be the chief operating decision maker in respect of the operating activities of the Group. The UK is the Group's country of domicile and one of its principal markets.

Assessing segment performance

The Group uses the following key measures to assess the performance of its operating segments:

- Net written premiums
- Underwriting result
- Combined operating ratio (COR)
- Business operating result

Net written premiums is the key measure of revenue used in internal reporting.

Underwriting result, COR and business operating result are Alternative Performance Measures (APMs) and the key internal measures of profitability of the operating segments. The COR reflects the ratio of claims costs and expenses (including commission) to earned premiums, expressed as a percentage. Further information on APMs can be found on pages 181 to 190.

Transfers or transactions between segments are entered into under normal commercial terms and conditions that would also be available to unrelated third parties.

Segment revenue and results

Year ended 31 December 2020

	Scandinavia[1] £m	Canada £m	UK & International £m	Central Functions £m	Total Group £m
Net written premiums	**1,764**	**1,692**	**2,731**	**36**	**6,223**
Underwriting result	**291**	**199**	**42**	**(30)**	**502**
Investment result	**46**	**57**	**110**	**–**	**213**
Central costs and other activities	**–**	**–**	**–**	**(12)**	**(12)**
Business operating result (management basis)	**337**	**256**	**152**	**(42)**	**703**
Realised gains (note 10)					**6**
Unrealised losses, impairments of investments and foreign exchange					**(63)**
Interest costs (note 14)					**(33)**
Amortisation of intangible assets (note 13/23)					**(11)**
Impairment of goodwill (note 13/23)					**(14)**
Pension net interest and administration costs (note 12/41)					**1**
Reorganisation costs (note 8/13)					**(78)**
Change in economic assumptions (note 39)					**(8)**
Transaction costs[2]					**(14)**
Loss on disposal of businesses (note 7)					**(6)**
Profit before tax					**483**
Tax on operations (note 18)					**(119)**
Profit after tax					**364**
Combined operating ratio (%)	**83.2%**	**88.3%**	**98.5%**		**91.9%**

1. Included within Scandinavia is a reduction of **£22m** to gross written and gross earned premium which reflects premium recognised over a number of years in respect of cancelled insurance policies and an increase of **£10m** to expenses in relation to write-off of aged debtors, following completion of a balance sheet remediation programme in Sweden. This adjustment is also reflected in note 30 insurance and reinsurance debtors.
2. Transaction costs relate to central costs incurred in relation to the proposed takeover of RSA.

9) Segmental information continued

Year ended 31 December 2019

	Scandinavia £m	Canada £m	UK & International £m	Central Functions £m	Total Group £m
Net written premiums	1,764	1,735	2,881	37	6,417
Underwriting result[1]	223	94	77	(48)	346
Investment result	63	65	135	–	263
Central costs and other activities	–	–	–	(12)	(12)
Business operating result (management basis)	286	159	212	(60)	597
Realised gains (note 10)					15
Unrealised losses, impairments of investments and foreign exchange					(24)
Interest costs (note 14)					(32)
Amortisation of intangible assets (note 13/23)					(12)
Pension net interest and administration costs (note 12/41)					4
Reorganisation costs (note 8/13)					(27)
Change in economic assumptions (note 39)					(15)
Loss on disposal of businesses (note 7)					(14)
Profit before tax					492
Tax on operations (note 18)					(109)
Profit after tax					383
Combined operating ratio (%)	87.4%	94.5%	97.1%		94.6%

1. UK & International management underwriting result, as reported in the Strategic Report, includes an £8m reclassification of claims recoveries from Central Functions. This reclassification is not made in the Group consolidated financial statements.

10) 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 losses		Impairments		Total investment return	
	2020 £m	2019 £m	**2020 £m**	2019 £m	**2020 £m**	2019 £m	**2020 £m**	2019 £m	**2020 £m**	2019 £m
Investment property	**17**	18	**3**	–	**(8)**	(10)	**–**	–	**12**	8
Equity securities										
Available for sale	**28**	35	**3**	14	**–**	–	**(24)**	–	**7**	49
Debt securities										
Available for sale	**196**	223	**4**	1	**–**	–	**(8)**	–	**192**	224
At FVTPL	**–**	–	**–**	–	**(3)**	(6)	**–**	–	**(3)**	(6)
Other loans and receivables										
Loans secured by mortgages	**1**	2	**–**	–	**–**	–	**–**	–	**1**	2
Other loans	**9**	10	**1**	–	**–**	–	**–**	–	**10**	10
Deposits, cash and cash equivalents	**3**	9	**–**	–	**–**	–	**–**	–	**3**	9
Derivatives	**2**	6	**(5)**	–	**(4)**	(9)	**–**	–	**(7)**	(3)
Other	**2**	3	**–**	–	**–**	–	**–**	–	**2**	3
Total net investment return	**258**	306	**6**	15	**(15)**	(25)	**(32)**	–	**217**	296

Direct operating expenses (including repairs and maintenance) arising from investment properties were not material in 2020 or 2019.

Notes to the consolidated income statement, consolidated statement of comprehensive income and dividends continued

10) Net investment return continued

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

	Net unrealised (losses)/gains		Net realised gains transferred to income statement		Impairments transferred to income statement		Net movement recognised in other comprehensive income	
	2020 £m	2019 £m	**2020 £m**	2019 £m	**2020 £m**	2019 £m	**2020 £m**	2019 £m
Equity securities	**(66)**	38	**(3)**	(14)	**24**	–	**(45)**	24
Debt securities	**141**	115	**(4)**	(1)	**8**	–	**145**	114
Other	**1**	–	**(1)**	–	**–**	–	**–**	–
Total	**76**	153	**(8)**	(15)	**32**	–	**100**	138

11) Net claims

	2020 £m	2019 £m
Gross claims paid (note 39)	**4,556**	5,196
Gross changes in provision for losses and loss adjustment expenses	**(35)**	(137)
Reinsurance recoveries on claims paid (note 29)	**(594)**	(705)
Reinsurers' share of changes in provision for losses and loss adjustment expenses	**(37)**	(22)
Total net claims	**3,890**	4,332

12) Other operating income

	2020 £m	2019 £m
Administration fee income	**19**	26
Instalment policy fee income	**38**	40
Introductory commissions	**14**	13
Service income	**12**	11
Other fees	**46**	45
Pension net interest and administration expenses (note 9/41)	**1**	4
Foreign exchange gain	**–**	1
Total other operating income	**130**	140

13) Other operating expenses

	2020 £m	2019 £m
Administration and other expenses	**13**	13
Investment expenses and charges	**14**	12
Amortisation of intangible assets (note 9/23)	**11**	12
Impairment of goodwill (note 9/23)	**14**	–
Reorganisation costs (note 8/9)	**78**	27
Transaction costs (note 9)	**14**	–
Foreign exchange loss	**16**	–
Total other operating expenses	**160**	64

14) Finance costs

	2020 £m	2019 £m
Interest expense on issued debt (note 46)	**27**	25
Interest on lease liabilities (note 46)	**6**	7
Total finance costs	**33**	32

15) Employee expenses

Staff costs for all employees comprise:

	2020 £m	2019 £m
Wages and salaries	**631**	584
Social security costs	**86**	84
Pension costs	**73**	53
Share-based payments to directors and employees (note 19)	**19**	10
Total staff costs	**809**	731

The average number of employees during the year is as follows:

	2020	2019
Scandinavia	**2,884**	2,862
Canada	**3,020**	2,946
UK & International	**6,718**	6,846
Total average number of employees during the year	**12,622**	12,654

Further information on pension obligations of the Group can be found in note 41. Further information on employee share schemes can be found in note 19.

16) Related party transactions

Key management personnel comprise members of the Group Executive Committee, executive directors, and non-executive directors.

Key management personnel compensation

	2020 £m	2019 £m
Salaries and other short term employee benefits	**7**	8
Bonus awards	**6**	5
Share-based awards	**7**	4
Total	**20**	17

Included in salaries and other short term employee benefits and bonus awards is **£6,760,000** (2019: £6,719,000) paid in respect of directors. These amounts exclude the value of share options granted to directors and gains made on the exercise of such options, Group contributions paid in respect of pension schemes and cash or other assets received or receivable under long term incentive schemes. The total value of the directors' remuneration (including values for these excluded items) and other details are disclosed in the Directors' Remuneration Report.

Key management personnel transactions

One member of key management personnel has control over an entity external to the RSA Group. This company did not transact with the Group during the year.

A number of the directors, other key managers, their close families and entities under their control have general insurance policies with subsidiary companies of the Group. Such policies are available at discounted rates to all employees including executive directors.

Notes to the consolidated income statement, consolidated statement of comprehensive income and dividends continued

17) Auditor's remuneration

	2020 £m	2019 £m
Fees payable to the auditor for audit of the Company's annual accounts	**1.4**	0.8
Fees payable to the auditor and its associates for other services:		
The audit of the Company's subsidiaries, pursuant to legislation	**5.5**	4.7
Non-audit services:		
Audit related assurance services	**1.6**	1.3
Other services	**–**	0.1
Total auditor's remuneration	**8.5**	6.9

Included in the Audit related assurance services for 2020 is **£0.9m** (2019: £0.9m) of assurance work in respect of Solvency II reporting. The remainder of **£0.7m** (2019: £0.4m), together with Other services of **£nil** (2019: £0.1m), represents in aggregate **11%** (2019: 11%) of the Group IFRS audit fee of **£6.9m** (2019: £5.5m).

18) Income tax

The tax amounts charged in the income statement are as follows:

	2020 £m	2019 £m
Current tax:		
Charge for the year	**99**	85
Adjustments in respect of prior years	**1**	5
Total current tax	**100**	90
Deferred tax:		
Charge for the year	**21**	19
Adjustments in respect of prior years	**(2)**	–
Total deferred tax	**19**	19
Total tax charged to income statement	**119**	109

Reconciliation of the income tax expense

	2020 £m	2019 £m
Profit before tax	**483**	492
Tax at the UK rate of **19.0%** (2019: 19.0%)	**92**	93
Tax effect of:		
Income/gains not taxable (or taxed at lower rate)	**(7)**	(15)
Expenses not deductible for tax purposes	**7**	5
Non-taxable loss/(profit) on sale of subsidiaries	**1**	–
Impairment of goodwill and amortisation of intangibles	**4**	–
Increase/(decrease) of current tax in respect of prior periods	**1**	5
Increase/(decrease) of deferred tax in respect of prior periods (other than losses)	**(2)**	–
Derecognition of deferred tax asset for prior year losses	**20**	6
Non-recognition of deferred tax asset for current year losses	**3**	5
Different tax rates of subsidiaries operating in other jurisdictions	**18**	8
Withholding tax on dividends and interest from subsidiaries	**4**	5
Effect of change in tax rates	**(21)**	(1)
Deductible Restricted Tier 1 coupon in equity	**(3)**	(3)
Other	**2**	1
Income tax expense	**119**	109
Effective tax rate	**25%**	22%

The Group effective tax rate of **25%** (2019: 22%) is higher than the UK statutory rate of 19%. This is predominately due to higher statutory tax rates in the Group's core overseas jurisdictions, non-creditable withholding tax, non-deductible expenses, as well as the de-recognition of deferred tax assets in the UK and Norway. These items are offset, to some extent, by non-taxable income/gains and the impact of the change in future UK tax rate to 19%. Further detail is set out below on specific items.

18) Income tax continued

The effect of change in tax rates mainly relates to the impact of the change in the UK tax rate (17% to 19% from April 2020) on the UK deferred tax asset. A valuation allowance has also been booked to the UK deferred tax asset and so the net UK deferred tax asset remains largely unchanged at **£181m** (2019: £180m). The impact of the rate change and valuation allowance is split between income statement and other comprehensive income based on the source of the originating temporary differences. The result of this is that the UK rate change impact is almost entirely booked to the income statement, but the valuation allowance is split between the income statement and other comprehensive income. The income statement element of the valuation allowance is included within the de-recognition of deferred tax asset for prior year losses amount of **£20m** together with a deferred tax asset write down in Norway of **£8m**. The net income statement impact of the UK rate change and subsequent UK deferred tax asset valuation allowance is a **£9m** deferred tax credit.

Income/gains not taxable (or taxed at lower rate) largely comprises tax-exempt investment income and life insurance profits taxed at a lower rate in Sweden. Non-deductible expenses largely comprise expenses related to the proposed takeover of the RSA Group and share scheme costs.

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

	Current Tax		Deferred Tax		Total	
	2020 £m	2019 £m	**2020 £m**	2019 £m	**2020 £m**	2019 £m
Exchange gains and losses	**4**	(2)	**–**	(3)	**4**	(5)
Fair value gains and losses	**(12)**	2	**14**	(10)	**2**	(8)
Remeasurement of net defined benefit pension liability	**2**	–	**(19)**	(3)	**(17)**	(3)
Total credited/(charged) to other comprehensive income	**(6)**	–	**(5)**	(16)	**(11)**	(16)

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** (2019: £nil).

The Group applies judgment in identifying uncertainties over income tax treatments under IAS 12 and IFRIC 23. Provisions for uncertain tax treatments are based on our assessment of probable outcomes which take into consideration many factors, including interpretations of tax law and prior experience. At the end of the reporting period, provisions recognised in respect of uncertain tax positions for the Group totalled **less than £10m** (2019: less than £10m).

Tax rates

The table below provides a summary of the current tax and deferred tax rates for the year in respect of the core tax jurisdictions in which the Group operates.

	2020		2019	
	Current Tax	**Deferred Tax**	Current Tax	Deferred Tax
UK	**19.0%**	**19.0%**	19.0%	17.0%
Canada	**26.5%**	**26.5%**	27.4%	27.4%
Denmark	**22.0%**	**22.0%**	22.0%	22.0%
Ireland	**12.5%**	**12.5%**	12.5%	12.5%
Sweden	**21.4%**	**20.6%**	21.4%	20.6%

Tax assets and liabilities are recognised based on tax rates that have been enacted or substantively enacted at the balance sheet date.

A change to the UK corporation tax rate was substantively enacted during the year. The UK tax rate now remains at 19%, rather than the previously enacted reduction to 17% from 1 April 2020. This change impacts the UK deferred tax rate.

The Swedish corporation tax rate of 20.6% applies from 1 January 2021.

Notes to the consolidated income statement, consolidated statement of comprehensive income and dividends continued

19) Share-based payments

The total amount included within staff costs in the consolidated income statement in respect of all share scheme plans in 2020 is set out below.

Analysis of share scheme costs:

	2020 £m	2019 £m
Performance share plan (PSP)	**17**	8
Save as you earn (SAYE)	**2**	2
Total (note 15)	**19**	10

Analysis of new award costs:

	2020		2019	
	Charge for year £m	Total value granted £m	Charge for year £m	Total value granted £m
PSP	**7**	**14**	4	12
SAYE	**–**	**2**	–	1
Total	**7**	**16**	4	13

The balance of the value of the awards will be charged to the consolidated income statement during the remaining vesting periods.

Performance Share Plan

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

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

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

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

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

20) 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 **1,034,036,503** (2019: 1,030,648,190) for basic EPS and **1,038,199,977** (2019: 1,033,077,874) 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 2020 was **1,035,142,945** (2019: 1,031,523,544) (excluding those held in ESOP and SIP trusts).

Basic EPS

	2020	2019
Profit attributable to the owners of the Parent Company (£m)	**345**	359
Less: cumulative preference dividends (£m) (note 21)	**(9)**	(9)
Less: Tier 1 notes coupon payment (£m) (note 21)	**(16)**	(14)
Profit for the calculation of earnings per share (£m)	**320**	336
Weighted average number of ordinary shares in issue (thousands)	**1,034,037**	1,030,648
Basic earnings per share (p)	**30.9**	32.6

Diluted EPS

	2020	2019
Weighted average number of ordinary shares in issue (thousands)	**1,034,037**	1,030,648
Adjustments for share options and contingently issuable shares (thousands)	**4,163**	2,430
Total weighted average number of ordinary shares for diluted earnings per share (thousands)	**1,038,200**	1,033,078
Diluted earnings per share (p)	**30.8**	32.5

Note 34 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.

21) Dividends paid and proposed

	2020 p	2019 p	2020 £m	2019 £m
Ordinary dividend:				
Final paid in respect of prior year	**–**	13.7	**–**	141
Interim paid in respect of current year	**8.0**	7.5	**83**	78
	8.0	21.2	**83**	219
Preference dividend			**9**	9
Tier 1 notes coupon payment			**16**	14
			108	242

Due to the takeover bid for RSA, a final dividend for 2020 is not being proposed, though were the transaction not to complete, the directors would intend to declare catchup payments thereafter. This also applies to the suspended final dividend for 2019.

The Tier 1 notes coupon payment relates to the two floating rate notes issued on 27 March 2017 (note 35).

The Company's preference shareholders receive a dividend at the rate of 7.375% per annum paid in two instalments on, or as near as practicably possible to, 1 April and 1 October each year, subject to approval by the Board.

As announced on 8 April 2020, the proposed final dividend to equity holders in respect of the year ended 31 December 2019 of 15.6p per ordinary share (amounting to a total dividend of £161m), as disclosed in the 2019 Annual Report and Accounts, was suspended.

Notes to the consolidated income statement, consolidated statement of comprehensive income and dividends continued

22) Total other comprehensive income

Year ended 31 December 2020

	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**	**Equity attributable to owners of the Parent Company £m**	**Non-controlling interests £m**	**Total equity £m**
Exchange gains/(losses) net of tax	**15**	**–**	**–**	**15**	**46**	**–**	**61**	**(6)**	**55**
Fair value gains/(losses) net of tax	**102**	**–**	**(5)**	**97**	**–**	**–**	**97**	**1**	**98**
Pension – remeasurement of net defined benefit asset/liability net of tax	**–**	**–**	**–**	**–**	**–**	**(25)**	**(25)**	**–**	**(25)**
Total other comprehensive income/(expense) for the year	**117**	**–**	**(5)**	**112**	**46**	**(25)**	**133**	**(5)**	**128**

Year ended 31 December 2019

	Investment valuation reserve £m	Group occupied property reserve £m	Hedging instrument reserve £m	Total revaluation reserves £m	Foreign currency translation reserve £m	Retained earnings £m	Equity attributable to owners of the Parent Company £m	Non-controlling interests £m	Total equity £m
Exchange losses net of tax	(14)	–	(1)	(15)	(64)	–	(79)	(6)	(85)
Fair value gains/(losses) net of tax	128	–	(7)	121	–	–	121	–	121
Pension – remeasurement of net defined benefit asset/liability net of tax	–	–	–	–	–	(86)	(86)	–	(86)
Movement in property revaluation net of tax	–	1	–	1	–	–	1	–	1
Total other comprehensive income/(expense) for the year	114	1	(8)	107	(64)	(86)	(43)	(6)	(49)

Notes to the consolidated statement of financial position

23) 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 2020	**412**	**126**	**80**	**931**	**266**	**1,815**
Additions	**–**	**–**	**1**	**119**	**2**	**122**
Disposals	**–**	**(15)**	**–**	**(1)**	**(21)**	**(37)**
Exchange adjustment	**10**	**7**	**–**	**14**	**(1)**	**30**
At 31 December 2020	**422**	**118**	**81**	**1,063**	**246**	**1,930**
Accumulated amortisation						
At 1 January 2020	**–**	**126**	**77**	**434**	**211**	**848**
Amortisation charge	**–**	**–**	**1**	**68**	**16**	**85**
Amortisation on disposals	**–**	**(15)**	**–**	**–**	**(20)**	**(35)**
Exchange adjustment	**–**	**7**	**–**	**7**	**(1)**	**13**
At 31 December 2020	**–**	**118**	**78**	**509**	**206**	**911**
Accumulated impairment						
At 1 January 2020	**75**	**–**	**–**	**51**	**4**	**130**
Impairment charge	**14**	**–**	**–**	**1**	**–**	**15**
Exchange adjustment	**3**	**–**	**–**	**3**	**–**	**6**
At 31 December 2020	**92**	**–**	**–**	**55**	**4**	**151**
Carrying amount at 31 December 2020	**330**	**–**	**3**	**499**	**36**	**868**

	Goodwill £m	Intangible assets arising from acquired claims provisions £m	Externally acquired software £m	Internally generated software £m	Customer related intangibles £m	Total £m
Cost						
At 1 January 2019	441	133	83	907	262	1,826
Additions	–	–	2	132	11	145
Disposals	(15)	–	(5)	(92)	(6)	(118)
Exchange adjustment	(14)	(7)	–	(16)	(1)	(38)
At 31 December 2019	412	126	80	931	266	1,815
Accumulated amortisation						
At 1 January 2019	–	133	81	462	199	875
Amortisation charge	–	–	1	65	18	84
Amortisation on disposals	–	–	(5)	(86)	(6)	(97)
Exchange adjustment	–	(7)	–	(7)	–	(14)
At 31 December 2019	–	126	77	434	211	848
Accumulated impairment						
At 1 January 2019	92	–	–	60	5	157
Impairment charge	–	–	–	1	–	1
Impairment on disposals	(13)	–	–	(7)	–	(20)
Exchange adjustment	(4)	–	–	(3)	(1)	(8)
At 31 December 2019	75	–	–	51	4	130
Carrying amount at 31 December 2019	337	–	3	446	51	837

The carrying value of intangible assets not yet available for use at 31 December 2020 is **£188m** (2019: £170m). This primarily relates to the implementation of strategic software assets across the Group, reported within internally generated software.

23) Goodwill and intangible assets continued

Amortisation

Amortisation expense of **£74m** (2019: £72m) has been charged to underwriting and policy acquisition costs with the remainder recognised in other operating expenses.

Impairments

During 2020 the software impairment charge was **£1m** (2019: £1m), recognised in underwriting and policy acquisition costs, relating to obsolete assets that have been fully written off.

When testing for impairment, the carrying value of the Cash Generating Unit (CGU) to which goodwill and intangibles have been allocated is compared to the recoverable amount as determined by a value in use calculation. Where the value in use is less than the current carrying value of the CGU in the statement of financial position, the goodwill or intangible asset is impaired in order to ensure that the CGU carrying value is not greater than its future value to the Group.

The value in use calculation uses cash flow projections based on operational plans approved by management covering a three year period. The operational plans use 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. These plans reflect the Group's assessment of the impact of the current challenging economic environment and assumes that Group continues to operate on a standalone basis.

Cash flows beyond the operational plan 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. When testing for intangible asset impairment (including those not available for use), a consistent methodology is applied although future cash flow projection years are not extrapolated beyond the asset's useful economic life.

Goodwill is allocated to the Group's CGUs, which are contained within the following operating segments:

	2020 £m	2019 £m
Scandinavia (Sweden, Denmark, Norway)	**132**	138
Canada (Commercial, Johnson, Personal, Travel)	**157**	160
UK and International (Ireland, Oman)	**41**	39
Total goodwill	**330**	337

The range of pre-tax discount rates used for goodwill and intangible impairment testing, which reflect specific risks relating to the CGU at the date of evaluation, and weighted average growth rates used in 2020 for the CGUs within each operating segment are shown below. In determining a cost of capital, data over a period of time is utilised to avoid short term market volatility. The growth 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**	
	2020	2019	**2020**	2019
Scandinavia	**9%–10%**	9%–11%	**1%–3%**	1%–3%
Canada	**11%**	11%–12%	**3%–4%**	3%–4%
UK & International	**9%–14%**	9%	**2%–3%**	0%–3%

The impairment testing identified that the carrying value of Norway goodwill was greater than the CGU value in use. As a result, an impairment of **£14m** has been recognised in other operating expenses taking the carrying value to **£nil**. No other impairments have been identified, with recoverable value sufficiently exceeding carrying value elsewhere in the Group.

Sensitivity

There is increased uncertainty within the operational plans due to the impact of Covid-19 and the offer to buy RSA therefore a range of downside scenarios to the plan have been considered, none of which would result in an impairment of goodwill.

Sensitivities relating to key assumptions in the value in use model are shown in the table below. A 1% increase in the cost of capital and a 1% decrease in future growth rates have been considered, neither of which would result in an impairment of goodwill.

23) Goodwill and intangible assets continued

	Goodwill £m	Recoverable amount less carrying value £m	Change in recoverable amount less carrying value: Discount rate +1% £m	Change in recoverable amount less carrying value: Weighted average growth rate – 1% £m
Scandinavia (Sweden, Denmark)	**132**	**3,402**	**(570)**	**(455)**
Canada (Commercial, Johnson, Personal, Travel)	**157**	**1,302**	**(346)**	**(286)**
UK and International (Ireland, Oman)	**41**	**166**	**(64)**	**(52)**
Total goodwill	**330**	**4,870**	**(980)**	**(793)**

24) Property and equipment

Property and equipment is split between property and equipment owned and right-of-use assets as follows:

	2020 £m	2019 £m
Property and equipment owned (see below)	**86**	83
Right-of-use assets (note 44)	**151**	213
Total property and equipment	**237**	296

Right-of-use assets relate to leased properties and other equipment. Further information can be found in note 44.

Property and equipment owned

	Group occupied property-land and buildings 2020 £m	Other 2020 £m	Total 2020 £m	Group occupied property -land and buildings 2019 £m	Other 2019 £m	Total 2019 £m
Cost/valuation						
At 1 January	**19**	**222**	**241**	19	234	253
Additions	**–**	**23**	**23**	–	8	8
Disposals	**–**	**(23)**	**(23)**	–	(18)	(18)
Exchange adjustment	**–**	**1**	**1**	–	(2)	(2)
At 31 December	**19**	**223**	**242**	19	222	241
Accumulated depreciation						
At 1 January	**–**	**158**	**158**	–	163	163
Depreciation charge	**–**	**13**	**13**	1	14	15
Depreciation on disposals	**–**	**(20)**	**(20)**	–	(17)	(17)
Revaluation adjustments	**–**	**–**	**–**	(1)	–	(1)
Exchange adjustment	**–**	**1**	**1**	–	(2)	(2)
At 31 December	**–**	**152**	**152**	–	158	158
Accumulated impairment						
At 1 January	**–**	**–**	**–**	–	–	–
Impairment charge	**–**	**4**	**4**	–	–	–
At 31 December	**–**	**4**	**4**	–	–	–
Carrying amount at 31 December	**19**	**67**	**86**	19	64	83

Other includes fixtures, fittings and other equipment.

Depreciation expenses of **£13m** (2019: £14m) have been charged to underwriting and policy acquisition costs.

Impairments of **£4m** (2019: £nil) have been recognised in UK&I underwriting and policy acquisition costs relating to fixtures and fittings not expected to be utilised further to the exiting of leased office space.

Group occupied property was revalued on 31 December 2020 by independent valuers using the basis of valuation as set out in note 27.

The carrying amount of Group occupied property that would have been recognised had the assets been carried under the cost model at 31 December 2020 is **£4m** (2019: £5m).

Notes to the consolidated statement of financial position continued

24) Property and equipment continued

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

	2020 £m	2019 £m
At 1 January	**21**	20
Revaluation adjustment (note 22)	**–**	1
Group occupied property reserve at 31 December	**21**	21

25) Investment property

Investment property of **£285m** (2019: £300m), relating to freehold and leasehold land and buildings, is held for long term rental yields and is not occupied by the Group.

The movement in the carrying value of investment property is detailed below:

	2020 £m	2019 £m
At 1 January	**300**	310
Purchases	**19**	9
Sales	**(29)**	(9)
Fair value losses	**(8)**	(10)
Transfer from right-of-use assets	**3**	–
Investment property at 31 December	**285**	300
Expected to be recovered within 12 months	**–**	–
Expected to be recovered after 12 months	**285**	300

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.

26) Financial assets

The following tables analyse the Group's financial assets by classification as at 31 December 2020 and 31 December 2019.

As at 31 December 2020

	At fair value through profit and loss (FVTPL) £m	Available for sale £m	Loans and receivables £m	Total £m	Expected to be recovered: Within 12 months £m	Expected to be recovered: After 12 months £m
Equity securities	**–**	**673**	**–**	**673**	**–**	**673**
Debt securities	**12**	**10,712**	**–**	**10,724**	**1,804**	**8,920**
Financial assets measured at fair value	**12**	**11,385**	**–**	**11,397**	**1,804**	**9,593**
Loans and receivables	**–**	**–**	**429**	**429**	**27**	**402**
Total financial assets	**12**	**11,385**	**429**	**11,826**	**1,831**	**9,995**

As at 31 December 2019

	At fair value through profit and loss (FVTPL) £m	Available for sale £m	Loans and receivables £m	Total £m	Expected to be recovered: Within 12 months £m	Expected to be recovered: After 12 months £m
Equity securities	–	673	–	673	–	673
Debt securities	15	10,396	–	10,411	2,152	8,259
Financial assets measured at fair value	15	11,069	–	11,084	2,152	8,932
Loans and receivables	–	–	338	338	27	311
Total financial assets	15	11,069	338	11,422	2,179	9,243

26) Financial assets continued

The following table analyses the cost/amortised cost, gross unrealised gains and losses, and fair value of financial assets.

	2020				2019
	Cost/ amortised cost £m	Unrealised gains £m	Unrealised losses £m	Fair value £m	Fair value £m
Equity securities	**717**	**34**	**(78)**	**673**	673
Debt securities	**10,297**	**540**	**(113)**	**10,724**	10,411
Financial assets measured at fair value	**11,014**	**574**	**(191)**	**11,397**	11,084
Loans and receivables	**429**	**–**	**–**	**429**	338
Total financial assets	**11,443**	**574**	**(191)**	**11,826**	11,422

Collateral

At 31 December 2020, the Group had pledged **£530m** (2019: £557m) of financial assets as collateral for liabilities or contingent liabilities, consisting of government debt securities of **£287m** (2019: £533m), non-government debt securities of **£192m** (2019: £nil), and cash and cash equivalents of **£51m** (2019: £24m). The debt securities of **£479m** (2019: £533m) are included in the balance sheet as available for sale debt securities and the Group's right to recover the cash pledged of **£51m** (2019: £24m) is included in other assets. The terms and conditions of the collateral pledged are market standard in relation to letter of credit facilities, derivative transactions and repurchase agreements.

At 31 December 2020, the Group has accepted **£531m** (2019: £429m) in collateral, consisting of government debt securities of **£508m** (2019: £405m), which the Group is permitted to sell or repledge in the event of default by the owner, and cash and cash equivalents of **£23m** (2019: £24m). The obligation to repay the cash is included in the balance sheet in other liabilities and the corresponding cash received is recognised as an asset. The fair value of the collateral accepted is **£531m** (2019: £429m). 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 2020

	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)	**1,541**	**–**	**–**	**1,541**	**12**	**17**
Currency risk (cash flow)	**3**	**3**	**–**	**6**	**–**	**–**
Cross currency interest swaps (fair value/cash flow)	**38**	**54**	**291**	**383**	**28**	**31**
Total (note 32 / 43)					**40**	**48**
At FVTPL						
Currency risk mitigation	**580**	**–**	**–**	**580**	**7**	**2**
Inflation risk mitigation	**60**	**15**	**240**	**315**	**78**	**95**
Total (note 32 / 43)					**85**	**97**
Total derivatives					**125**	**145**

As at 31 December 2019

	Notional Amount				Fair Value	
	Less than 1 year £m	From 1 to 5 years £m	Over 5 years £m	Total £m	Asset £m	Liability £m
Designated as hedging instruments						
Currency risk (net investment in foreign operation)	1,058	–	–	1,058	31	3
Currency risk (cash flow)	4	6	–	10	1	–
Cross currency interest swaps (fair value/cash flow)	–	49	155	204	–	27
Total (note 32 / 43)					32	30
At FVTPL						
Currency risk mitigation	400	–	–	400	7	1
Inflation risk mitigation	–	60	257	317	59	64
Total (note 32 / 43)					66	65
Total derivatives					98	95

26) Financial assets continued

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 IAS 39 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 2020 or 2019.

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 5 months and 35 years, with the substantial majority having a term of less than 8 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.

The total losses on cash flow hedge instruments during 2020 were **£26m** (2019: £2m losses) in the consolidated statement of other comprehensive income, and the amount reclassified to the income statement was a gain of **£19m** (2019: £1m gain), recognised within foreign exchange losses in other operating expenses (see note 13) (2019: recognised within foreign exchange gains in other operating income (see note 12)). There was no ineffectiveness recognised in the income statement in respect of these hedges during 2020 or 2019.

The total losses on the fair value hedge instruments recognised in the income statement were **£62m** (2019: £52m losses) and the offsetting gains related to the hedged risk were **£51m** (2019: £45m gains).

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, as at 31 December 2020, the Group has borrowings from credit institutions under repurchase agreements of **£121m** (2019: £146m) (note 38). 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 2020

	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	**125**	**–**	**125**	**(106)**	**(16)**	**3**
Cash received under repurchase arrangements	**121**	**–**	**121**	**(121)**	**–**	**–**
Total assets	**246**	**–**	**246**	**(227)**	**(16)**	**3**
Derivative financial liabilities	**145**	**–**	**145**	**(106)**	**(39)**	**–**
Repurchase arrangements and other similar secured borrowing	**121**	**–**	**121**	**(121)**	**–**	**–**
Total liabilities	**266**	**–**	**266**	**(227)**	**(39)**	**–**

As at 31 December 2019

	Amounts subject to enforceable netting arrangements					
	Effect of offsetting in statement of financial position			Related items not offset		
	Gross amounts £m	Amounts offset £m	Net amounts reported £m	Financial instruments £m	Financial collateral £m	Net amount £m
Derivative financial assets	98	–	98	(76)	(18)	4
Cash received under repurchase arrangements	146	–	146	(146)	–	–
Total assets	244	–	244	(222)	(18)	4
Derivative financial liabilities	95	–	95	(76)	(19)	–
Repurchase arrangements and other similar secured borrowing	146	–	146	(146)	–	–
Total liabilities	241	–	241	(222)	(19)	–

Repurchase arrangements are settled "delivery versus principal" and so are disclosed in the above table net of associated debt securities.

26) Financial assets continued

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.

The fair value at 31 December 2020 and change during the year of financial assets that are held to collect cash flows on specified dates that are solely for payment of principal and interest (SPPI) and are not held for trading as defined under IFRS 9, nor are managed or evaluated on a fair value basis, is set out below, together with the same information for other financial assets:

As at 31 December 2020

	SPPI financial assets £m	Other financial assets £m	Total £m
Available for sale equity securities	**–**	**673**	**673**
Available for sale debt securities	**10,302**	**410**	**10,712**
Debt securities at FVTPL	**–**	**12**	**12**
Loans and receivables	**429**	**–**	**429**
Derivative assets held for trading	**–**	**85**	**85**
Fair value at 31 December 2020	**10,731**	**1,180**	**11,911**

As at 31 December 2019

	SPPI financial assets £m	Other financial assets £m	Total £m
Available for sale equity securities	–	673	673
Available for sale debt securities	10,073	323	10,396
Debt securities at FVTPL	–	15	15
Loans and receivables	338	–	338
Derivative assets held for trading	–	66	66
Fair value at 31 December 2019	10,411	1,077	11,488

The fair value gains/losses on SPPI financial assets and other financial assets during the year are **£144m gains** (2019: £114m gains) and **£80m losses** (2019: £31m gains) respectively.

Information on credit ratings relating to SPPI debt securities and loans and receivables can be found in note 6.

When IFRS 9 is adopted by the Group (currently expected to be 2023) an expected credit loss provision will be recognised replacing the incurred credit loss provision under IAS 39, the impact of which will be determined by the financial instruments held at that time.

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.

27) 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 Group occupied properties and investment properties are based on the comparative method of valuation with reference to sales of other comparable buildings. Fair value is then determined based on the locational qualities and physical building characteristics (principally condition, size, specification and layout) together with factoring in the occupational lease terms and tenant covenant strength as appropriate.

27) 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.

Issued debt

The fair value measurement of the Group's issued debt instruments, with the exception of the subordinated guaranteed US$ bonds, are based on pricing obtained from a range of financial intermediaries who base their valuations on recent transactions of the Group's issued debt instruments and other observable market inputs such as applicable risk free rate and appropriate credit risk spreads.

The fair value measurement of the subordinated guaranteed US$ bonds is also obtained from an indicative valuation based on the applicable risk free rate and appropriate credit risk spread.

Fair value hierarchy

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

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

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

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

In certain circumstances, the Group does not receive pricing information from an external provider for its financial investments. In such circumstances the Group calculates fair value, which may use input parameters that are not based on observable market data. Unobservable inputs are based on assumptions that are neither supported by prices from observable current market transactions for the same instrument nor based on available market data. In these cases, judgment is required to establish fair values. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

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

Investment property

Investment property valuations are carried out in accordance with the latest edition of the Valuation Standards published by the Royal Institution of Chartered Surveyors (RICS), and are undertaken by independent RICS registered valuers. Valuations are based on the comparative method with reference to sales of other comparable buildings and take into account the nature, location and condition of the specific property together with factoring in the occupational lease terms and tenant covenant strength as appropriate. The valuations also include an income approach using discounted future cash flows, which uses unobservable inputs, such as discount rates, rental values, rental growth rates, vacancy rates and void or rent free periods expected after the end of each lease. The valuations at 31 December 2020 reflects equivalent yield ranges between 4.15% and 15.41% (2019: 4.25% and 12.30%).

Private fund structures

Loan funds are principally valued at the proportion of the Group's holding of the Net Asset Value (NAV) reported by the investment vehicle. Several procedures are employed to assess the reasonableness of the NAV reported by the fund, including obtaining and reviewing periodic and audited financial statements and estimating fair value based on a discounted cash flow model that adds spreads for credit and illiquidity to a risk-free discount rate. Discount rates employed in the model at 31 December 2020 range from 0.2% to 8.7% (2019: 0.5% to 6.0%). If necessary the Group will adjust the fund's reported NAV to the discounted cash flow valuation where this more appropriately represents the fair value of its interest in the investment.

Given the current ongoing economic uncertainty, the asset valuation techniques described above that rely on unobservable inputs are less certain, and additional sensitivity has been applied to the valuation of level 3 assets in this note on page 142.

Covid-19 has impacted financial markets with price volatility and changes in trading volumes. A review of the assets' fair value and their classification on the fair value hierarchy has been performed. As a result of this review, Canadian preference shares of **£178m** (31 December 2019: £176m) have been transferred from level 1 to level 2 of the fair value hierarchy in recognition of the relatively low volume of trading in 2020.

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.

27) Fair value measurement continued

	Fair value hierarchy 2020			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**
Group occupied property – land and buildings	**–**	**–**	**19**	**19**
Investment properties	**–**	**–**	**285**	**285**
Available for sale financial assets:				
Equity securities	**185**	**179**	**309**	**673**
Debt securities	**2,416**	**7,874**	**422**	**10,712**
Financial assets at FVTPL:				
Debt securities	**–**	**–**	**12**	**12**
	2,601	**8,053**	**1,047**	**11,701**
Derivative assets:				
At FVTPL	**–**	**85**	**–**	**85**
Designated as hedging instruments	**–**	**40**	**–**	**40**
Total assets measured at fair value	**2,601**	**8,178**	**1,047**	**11,826**
Derivative liabilities:				
At FVTPL	**–**	**97**	**–**	**97**
Designated as hedging instruments	**–**	**48**	**–**	**48**
Total liabilities measured at fair value	**–**	**145**	**–**	**145**
Issued debt	**–**	**837**	**–**	**837**
Total value of liabilities not measured at fair value	**–**	**837**	**–**	**837**

	Fair value hierarchy Re-presented[1] 2019			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Group occupied property – land and buildings	–	–	19	19
Investment properties	–	–	300	300
Available for sale financial assets:				
Equity securities	394	–	279	673
Debt securities	2,636	7,385	375	10,396
Financial assets at FVTPL:				
Debt securities	–	–	15	15
	3,030	7,385	988	11,403
Derivative assets:				
At FVTPL	–	66	–	66
Designated as hedging instruments	–	32	–	32
Total assets measured at fair value	3,030	7,483	988	11,501
Derivative liabilities:				
At FVTPL	–	65	–	65
Designated as hedging instruments	–	30	–	30
Total liabilities measured at fair value	–	95	–	95
Issued debt	–	814	–	814
Total value of liabilities not measured at fair value	–	814	–	814

1. During the year the price spread criteria applied to evidence sufficient activity in bond markets to meet level 1 classification requirements have been reviewed and aligned across asset categories and across the Group. As a consequence of this review, the 2019 fair value hierarchy has been re-presented to reclassify certain mortgage backed securities from level 1 to level 2, and to reclassify certain government securities from level 2 to level 1, with a net impact of a decrease to level 1 of £1,089m and an increase to level 2 of the same amount.

Notes to the consolidated statement of financial position continued

27) 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					
	Equity securities £m	Debt securities £m	Debt securities at FVTPL £m	Investment property £m	Group occupied property £m	Total £m
At 1 January 2019	355	410	19	310	19	1,113
Total gains/(losses) recognised in:						
Income statement	3	3	(6)	(10)	(1)	(11)
Other comprehensive income	(6)	(11)	–	–	1	(16)
Purchases	35	134	2	9	–	180
Disposals	(96)	(157)	–	(9)	–	(262)
Exchange adjustment	(12)	(4)	–	–	–	(16)
At 1 January 2020	**279**	**375**	**15**	**300**	**19**	**988**
Total gains/(losses) recognised in:						
Income statement	**–**	**7**	**(3)**	**(8)**	**–**	**(4)**
Other comprehensive income	**(5)**	**1**	**–**	**–**	**–**	**(4)**
Purchases	**49**	**153**	**–**	**19**	**–**	**221**
Disposals	**(27)**	**(113)**	**–**	**(29)**	**–**	**(169)**
Exchange adjustment	**13**	**(1)**	**–**	**–**	**–**	**12**
Transfer from right-of-use assets	**–**	**–**	**–**	**3**	**–**	**3**
Level 3 financial assets at 31 December 2020	**309**	**422**	**12**	**285**	**19**	**1,047**

Unrealised losses of **£3m** (2019: £6m losses) attributable to FVTPL debt securities recognised in the consolidated income statement relate to those still held at the end of the year.

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

		Reasonably possible alternative assumptions			
		2020		2019 restated[1, 2]	
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**	**(2)**	19	(1)
Investment properties[1]	Cash flows; discount rate	**285**	**(25)**	300	(13)
Level 3 available for sale financial assets:					
Equity securities[2]	Cash flows; discount rate	**309**	**(4)**	279	(2)
Debt securities[2]	Cash flows; discount rate	**422**	**(7)**	375	(3)
Total		**1,035**	**(38)**	973	(19)

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 50bps in the discount rate used in the valuation. This increase has been considered in light of the current level of uncertainty and a change of 50bps is considered a reasonably possible scenario. The 31 December 2019 sensitivity has been restated using a change of 25bps, which is considered a reasonably possible scenario at the time. The 2019 sensitivity reported in the 2019 Group Annual Report and Accounts used a change of 100bps, which, with hindsight, was more severe than market conditions at that time warranted.
2. The Group's investment in financial assets classified at level 3 in the hierarchy are primarily investments in various private fund structures investing in debt instruments where the valuation includes estimates of the credit spreads on the underlying holdings. The estimates of the credit spread are based upon market observable credit spreads for what are considered to be assets with similar credit risk. Reasonably possible alternative valuations have been determined using an increase of 50bps in the credit spread used in the valuation. This increase has been considered in light of the current level of uncertainty and a change of 50bps is considered a reasonably possible scenario. The 31 December 2019 sensitivity has been restated using a change of 25bps, which is considered a reasonably possible scenario at the time. The 2019 sensitivity reported in the 2019 Group Annual Report and Accounts used a change of 100bps, which, with hindsight, was more severe than market conditions at that time warranted.

28) Interests in structured entities

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

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

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

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

In addition, the Group has commitments for future undrawn subscriptions limited to the amounts set out in the subscription agreements. The Group has no obligations to provide any other additional funding or other financial support to these entities. The Group has determined that its maximum exposure to structured entities is the sum of the carrying value and the undrawn commitments. These exposures at 31 December 2020 are summarised in the table below:

Class of investments	Nature of the underlying investments of the vehicle	**Carrying value 2020 £m**	**Undrawn commitments 2020 £m**	**Exposure 2020 £m**	Carrying value 2019 £m	Undrawn commitments 2019 £m	Exposure 2019 £m
Mortgage backed securities	Mainly consists of domestic mortgage backed securities	**2,380**	**–**	**2,380**	2,257	–	2,257
Collateralised debt obligations	Structured debt security backed by bonds	**286**	**16**	**302**	212	50	262
Cash money market funds	Short term cash deposits	**447**	**–**	**447**	365	–	365
Other	Mainly consists of property funds	**443**	**57**	**500**	425	100	525
		3,556	**73**	**3,629**	3,259	150	3,409

Structured entities are not consolidated and are disclosed as follows in the consolidated statement of financial position:

	2020 £m	2019 £m
Investments – financial assets – equity securities	**300**	273
Investments – financial assets – debt securities	**2,809**	2,621
Cash and cash equivalents	**447**	365
	3,556	3,259

29) Reinsurers' share of insurance contract liabilities

	2020 £m	2019 £m
Reinsurers' share of provisions for unearned premiums	**716**	746
Reinsurers' share of provisions for losses and loss adjustment expenses	**1,624**	1,580
Total reinsurers' share of insurance contract liabilities	**2,340**	2,326
To be settled within 12 months	**974**	902
To be settled after 12 months	**1,366**	1,424

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

	2020 £m	2019 £m
Reinsurers' share of provision for unearned premiums at 1 January	**746**	739
Premiums ceded to reinsurers	**1,059**	1,044
Reinsurers' share of premiums earned	**(1,089)**	(1,033)
Changes in reinsurance asset	**(30)**	11
Exchange adjustment	**–**	(4)
Total reinsurers' share of provision for unearned premiums at 31 December	**716**	746

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

	2020 £m	2019 £m
Reinsurers' share of provisions for losses and loss adjustment expenses at 1 January	**1,580**	2,136
Reinsurers' share of total claims incurred	**631**	727
Total reinsurance recoveries received	**(594)**	(705)
Disposal of UK Legacy	**–**	(572)
Disposal of Subsidiary	**(1)**	–
Exchange adjustment	**3**	(22)
Other movements	**5**	16
Reinsurers' share of provisions for losses and loss adjustment expenses at 31 December	**1,624**	1,580

30) Insurance and reinsurance debtors

	2020 £m	2019 £m
Insurance debtors comprise:		
Due from policyholders	**1,347**	1,332
Due from intermediaries	**1,467**	1,405
Total insurance debtors	**2,814**	2,737
Reinsurance debtors	**175**	186
Total insurance and reinsurance debtors	**2,989**	2,923
To be settled within 12 months	**2,770**	2,617
To be settled after 12 months	**219**	306

Insurance debtors due from policyholders increased by **£15m** in 2020, this includes an adjustment of **£32m** to reduce this balance following completion of a balance sheet remediation programme in Sweden. Of this amount, **£22m** relates to cancelled insurance policies and **£10m** relates to write-off of aged debtor balances. The adjustment relates to balances that had increased incrementally over a number of years and although the adjustment is not a transaction relating to 2020, it has been recognised in the current year. Judgement has been applied in recognising the adjustment in this way as its impact is not material either to the current or prior years. This adjustment is also reflected in note 9 segmental information.

31) Current and deferred tax

Current tax

	Asset		Liability	
	2020 £m	2019 £m	2020 £m	2019 £m
To be settled within 12 months	**18**	14	**33**	13
To be settled after 12 months	**5**	4	**7**	4
Current tax position at 31 December	**23**	18	**40**	17

The current tax liability largely relates to Canada. Corporation tax in Canada is payable during the year in instalments based on the tax payable in the previous year, with a balancing payment due after year end. The taxable profits in Canada in 2020 were significantly higher than in 2019 which results in a large final tax payment in 2021.

Deferred tax

	Asset		Liability	
	2020 £m	2019 £m	2020 £m	2019 £m
Deferred tax position at 31 December	**199**	209	**105**	84

Of the **£199m** (2019: £209m) deferred tax asset recognised by the Group, **£188m** (2019: £193m) relates to tax jurisdictions in which the Group has suffered a tax loss in either the current or preceding period; **£181m** (2019: £180m) of which relates to the UK.

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

The majority of the deferred tax asset recognised based on future profits is that in respect of the UK. The evidence for the future taxable profits is a seven-year forecast based on the three year operational plans prepared by the relevant businesses and a further four years of extrapolation, which are subject to internal review and challenge, including by the Board. The four years of extrapolation assumes UK premium growth of 5% per annum and overseas premium growth of 3% to 5% where relevant to UK profit projections. The forecasts include the impact of Covid-19 on future taxable profits and a contingency allowance of £25m per annum.

The value of the deferred tax asset is sensitive to assumptions in respect of forecast profits. The impact of downward movements in key assumptions on the value of the UK deferred tax asset is summarised below. The relationship between the UK deferred tax asset and the sensitivities below is not always linear. Therefore, the cumulative impact on the deferred tax asset of combined sensitivities or longer extrapolations based on the table below will be indicative only.

	2020 £m	2019 £m
1% increase in combined operating ratio across all 7 years	**(16)**	(15)
1 year reduction in the forecast modelling period	**(18)**	(23)
50 basis points decrease in bond yields	**(6)**	(7)
1% decrease in annual premium growth[1]	**(1)**	(1)

1. In respect of the extrapolated years four to seven only.

Notes to the consolidated statement of financial position continued

31) Current and deferred tax continued

In addition to the impact on the UK deferred tax asset of downwards movements in the key assumptions set out above, further specific downside scenarios have been modelled at 31 December 2020:

- Mild and severe UK downside scenarios each reflecting a reduction in premiums for each business due to wider economic uncertainty; an earlier implementation of the FCA thematic review on pricing than the current assumption; an increase in bad debts following the removal of government financial support; some worsening of other key assumptions such as weather and large losses; lower prior year development and higher claims inflation due to Brexit. These downside scenarios also include a proportion of the Canada, Ireland and Europe downside scenario outcomes (due to intra-group reinsurance transactions).
- The impact of a significant single catastrophe event in the UK on forecast future profits (after the impact of existing reinsurance arrangements).
- The impact of using a five year forecast period for modelling future UK profits rather than seven.
- A downside scenario for "uncommitted savings" which excludes the benefit of cost savings in the operational plan where they are not fully committed, including any costs of achieving those savings.

The impact of these scenarios on forecast UK profits and the deferred tax asset is summarised below:

	Profits £m	**DTA £m**
Mild downside scenario	**(106)**	**(10)**
Severe downside scenario	**(172)**	**(18)**
Significant catastrophe event	**(19)**	**(2)**
2 year reduction in the forecast period	**(315)**	**(36)**
Uncommitted savings	**(35)**	**(3)**

The proposed takeover of the RSA Group poses a material risk to the UK deferred tax asset as there is increased uncertainty in the profit forecasts, particularly in relation to certain intra-group transactions which form a material part of the UK forecast profits. It is not appropriate to take the transaction into account for DTA purposes at 31 December 2020 as there is no certainty over what actions or decisions the purchaser may take if the acquisition completes. Any impact of the acquisition on the UK deferred tax asset will be reflected once the transaction is complete and more detailed information is available.

The following table summarises the main categories of deferred tax assets/(liabilities) recognised by the Group:

	2020 £m	Restated[1] 2019 £m
Net unrealised gains on investments	**(70)**	(52)
Intangibles capitalised	**(22)**	(25)
Deferred acquisition costs	**(7)**	(6)
Tax losses and unused tax credits	**78**	85
Accrued costs deductible when settled	**98**	87
Net insurance contract liabilities	**(52)**	(23)
Retirement benefit obligations	**15**	17
Capital allowances	**40**	35
Provisions and other temporary differences	**14**	7
Net deferred tax asset at 31 December	**94**	125

1. In 2019, an £8m deferred tax liability for Scandinavian insurance receivables has been moved from "Provisions and other temporary differences" to "Net insurance contract liabilities".

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

	2020 £m	2019 £m
Net deferred tax asset at 1 January	**125**	155
Amounts charged to income statement	**(40)**	(20)
Amounts charged to other comprehensive income	**(5)**	(16)
Net amount arising on acquisition/disposal of subsidiaries and other transfers	**1**	–
Exchange adjustments	**(8)**	5
Effect of change in tax rates – income statement	**21**	1
Net deferred tax asset at 31 December	**94**	125

31) Current and deferred tax continued

At the end of the reporting period, the Group had the following unrecognised tax assets/(liabilities):

	2020		2019	
	Gross amount £m	**Tax effect £m**	Gross amount £m	Tax effect £m
Trading tax losses	**1,531**	**280**	1,335	225
Capital tax losses	**1,298**	**247**	1,314	225
Deductible temporary differences	**162**	**31**	169	29
Unremitted retained earnings	**(606)**	**(30)**	(505)	(25)
Unrecognised tax assets/(liabilities) as at 31 December	**2,385**	**528**	2,313	454

The Group's unrecognised trading losses are predominantly located in the UK and Ireland and represent losses which are not expected to be utilised within the forecast profit period. Unrecognised capital losses mainly relate to the UK and have not been recognised as it is not considered probable that they will be utilised in the future as most UK capital gains are exempt from tax. **£2m** (2019: £1m) of the gross trading tax losses are attributable to Luxembourg and will expire in 2036.

Unremitted retained earnings relate to the Group's subsidiaries in Canada. The Group can control, subject to regulatory and governance requirements, 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.

32) Other debtors and other assets

	2020 £m	2019 £m
Derivatives designated as accounting hedging instruments (note 26)	**40**	32
Other derivatives (note 26)	**85**	66
Other debtors	**185**	182
Pension scheme surplus (note 41)	**379**	290
Accrued interest and rent	**88**	94
Prepayments	**63**	54
Total other debtors and assets	**840**	718
To be settled within 12 months	**334**	355
To be settled after 12 months	**506**	363

33) Cash and cash equivalents

	2020 £m	2019 £m
Cash and cash equivalents, and bank overdrafts (consolidated statement of cash flows)	**1,083**	886
Add: Overdrafts reported in other borrowings (note 38)	**11**	23
Total cash and cash equivalents (consolidated statement of financial position)	**1,094**	909

Cash and cash equivalents of **£27m** (2019: £29m) held in Canada are restricted for operational RSA Group use.

34) 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 2020 is:

	2020 £m	2019 £m
Issued and fully paid		
1,035,267,610 Ordinary Shares of £1 each (2019: 1,031,645,294 Ordinary Shares of £1 each)	**1,035**	1,032
125,000,000 Preference Shares of £1 each (2019: 125,000,000 Preference Shares of £1 each)	**125**	125
	1,160	1,157

34) Share capital continued

During 2020, the Company issued a total of **3,622,316** new Ordinary Shares of £1 each ranking pari passu with Ordinary Shares in issue (2019: 4,707,366 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 2019	1,026,937,928	1,027	1,087
Issued in respect of employee share options and employee share awards	4,707,366	5	3
At 1 January 2020	**1,031,645,294**	**1,032**	**1,090**
Issued in respect of employee share options and employee share awards	**3,622,316**	**3**	**5**
At 31 December 2020	**1,035,267,610**	**1,035**	**1,095**

Rights attaching to the shares

The rights attaching to each class of share may be varied with the consent of the holders of 75% of the issued shares of that class.

Ordinary Shares of £1 each

Each member holding an Ordinary Share shall be entitled to vote on all matters at a general meeting of the Company, be entitled to receive dividend payments declared in accordance with the Articles of Association, and have the right to participate in any distribution of capital of the Company including on a winding up of the Company.

Preference Shares of £1 each

The Preference Shares are not redeemable but the holders of the Preference Shares have preferential rights over the holders of Ordinary Shares in respect of dividends and of the return of capital in the event of the winding up of the Company.

Provided a resolution of the Board exists, holders of Preference Shares are entitled to a cumulative preferential dividend of 7.375% per annum, payable out of the profits available for distribution, to be distributed in half yearly instalments. Preference shareholders have no further right to participate in the profits of the Company.

Full information on the rights attaching to shares is in the RSA Insurance Group plc Articles of Association which are available on the Group's website.

Employee share schemes

The Share Incentive Plan Trust is used to hold shares purchased or issued under the Company's all-employee Sharebuild plan. This includes unvested matching shares and unallocated shares which may subsequently be transferred to employees including Executive Directors to satisfy Sharebuild Matching Share awards. As at 31 December 2020, **124,665** Ordinary Shares (2019: 121,750 Ordinary Shares) are held by the Trust. These shares are presented as own shares. Own shares are deducted from equity. No gain or loss is recognised on the purchase, sale, issue or cancellation of the own shares. Any consideration paid or received is recognised directly in equity.

This Trust also holds shares that are beneficially owned by participants in the Plan.

The Royal and Sun Alliance ESOP Trust No. 2, an employee benefit trust, is used as a vehicle to satisfy vested awards under the long-term incentive plan (Performance Share Plan (PSP)). New issue shares are allotted to the trust immediately prior to vesting, and distributed to PSP participants at vesting. There was no balance of shares in this Trust as at 1 January 2020 or 31 December 2020.

At 31 December 2020, the total number of options over Ordinary Shares outstanding under the Group employee share option plan is **5,045,575** (2019: 4,463,331) and the total number of potential shares outstanding under the long term incentive plan and under the Sharebuild plan is **11,035,537** Ordinary Shares (2019: 9,941,034 Ordinary Shares). Further information on the employee share schemes is provided in note 19.

35) 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.

36) Non-controlling interests

The non-controlling interests (NCI) of the Group includes the interests in the following Group entities:

	NCI shares at 31 December 2020		NCI shares at 31 December 2019	
	%	**Share of net assets £m**	%	Share of net assets £m
Royal & Sun Alliance Insurance (Middle East) BSC (c)	**50**	**164**	50	163
British Aviation Insurance Company Limited	**–**	**–**	43	8

The Group's holding in British Aviation Insurance Company Limited was sold in 2020.

Royal & Sun Alliance Insurance (Middle East) BSC (c) owns 50% of the ordinary share capital of Al Alamiya for Cooperative Insurance Company, a company operating in the Kingdom of Saudi Arabia and 52.5% of Al Ahlia Insurance Company SAOG, a company operating in the Sultanate of Oman. They are valued in its statement of financial position at share of net assets, which are as follows:

	2020 Share of net assets £m	2019 Share of net assets £m
Al Alamiya for Cooperative Insurance Company	**38**	40
Al Ahlia Insurance Company SAOG	**33**	34

During 2020 the dividends paid to the non-controlling interests in the Middle East were **£13m** (2019: £13m).

37) Issued debt

	2020 £m	2019 £m
Subordinated guaranteed US$ bonds	**6**	6
Guaranteed subordinated notes due 2045	**397**	396
Total loan capital	**403**	402
Senior notes due 2024	**348**	348
Total issued debt	**751**	750

Loan capital

The subordinated guaranteed US$ bonds were issued in 1999 and have a nominal value of $9m and a redemption date of 15 October 2029. The rate of interest payable on the bonds is 8.95%.

The dated guaranteed subordinated notes were issued on 10 October 2014 at a fixed rate of 5.125%. The nominal £400m bonds have a redemption date of 10 October 2045. The Group has the right to repay the notes on specific dates from 10 October 2025. If the bonds are not repaid on that date, the applicable rate of interest would be reset at a rate of 3.852% plus the appropriate benchmark gilt for a further five year period.

The bonds and the notes are contractually subordinated to all other creditors of the Group such that in the event of a winding up or of bankruptcy, they are able to be repaid only after the claims of all other creditors have been met.

The Group has the option to defer interest payments on the bonds and notes, but has to date not exercised this right.

Senior notes

The nominal £350m senior notes were issued on 28 August 2019 for consideration of £349m. Interest is payable on the notes at a fixed rate of 1.625%. The notes have a maturity date of 28 August 2024 and may be redeemed at any time from a period starting 3 months prior to the maturity date.

All issued debt

There have been no defaults on any bonds or notes during the year.

38) Other borrowings

The Group's other borrowings as at 31 December 2020 are **£132m** (2019: £169m), relating to borrowings from credit institutions under repurchase agreements of **£121m** (2019: £146m) and bank accounts in overdraft **£11m** (2019: £23m).

39) 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 6).

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

The provisions for losses and loss adjustment expenses are estimated using relevant previous claims experience, historical payment 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, the levels of unpaid claims, and relevant external information such as 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:

- Historic claims development trends are assessed and used to inform extrapolation of the latest payments and reported claims cost for each prior period to their ultimate value
- 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
- The Bornhuetter-Ferguson method, which combines features of the above methods
- Bespoke methods for specialist classes of business, for example, for a legacy Children's PA product in Scandinavia we use a frequency/severity model based upon transition assumptions between the various stages of a claim

In selecting the method and estimate appropriate to any one class of insurance business, the Group considers the appropriateness of the methods and bases to the individual circumstances of the class and accident period or underwriting year. A key assumption that is common to many classes of business is that historic experience is a good guide to what we can expect to see in the future. This depends on a variety of things such as consistent claims handling practise and mix of business, which we test as part of our analytic process to ensure that our assumptions are reasonable.

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. Direct Covid-19 claims have been estimated using bespoke techniques that are primarily based upon granular exposure assessments, assumptions on how Covid-19 impacted businesses and societal behaviour, combined with early claims data and insight from the claims, underwriting and legal functions.

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

Insurance contract liability estimates are currently subject to heightened uncertainty relative to normal circumstances due to the impact of the Covid-19 pandemic. Materially different outcomes to those we assume are possible. The main areas of heightened uncertainty include:

- The impact which Covid-19 has had on claims experience will take time to develop. Some areas such as business interruption, travel and wedding have observed direct claims, whereas many other lines have seen material indirect changes in policyholder behaviour such as reduced motor frequency during lockdown. Changes in experience such as reduced claims frequency can result in a different mix or magnitude of claims and, therefore, different claims and runoff characteristics compared to historic experience. There have been material changes in the external claims environment in areas such as legal and medical activities which impact the speed of claims development. The distortions in our data caused by the various issues means identification of trends is more difficult than normal. Furthermore, it is possible that future economic conditions may give rise to different claims experience than expected. The following assumptions have been made in key areas in order to estimate the ultimate cost of claims:
  - Frequency, based on different levels of reported claim counts observed during the year
  - Severity, based on different average claims costs observed during the year
  - Claims development patterns, taking into account both internal operations and external impacts
- The ultimate cost of Covid-19 BI claims. The estimated impact of the Supreme Court judgement on 15 January 2021 relating to BI policy wording for Covid-19 is included in the actuarial indication of ultimate losses. This judgement corroborated the Financial Conduct Authority (FCA) policy wording review conducted to provide clarity on the treatment of Covid-19 BI claims for selected policy wording. The heightened level of uncertainty persists as claims notifications evolve and are assessed and work continues to fully understand the various implications of this ruling. In addition, in estimating the ultimate cost of Covid-19 BI claims a number of key assumptions have been made in relation to:
  - Public behaviour, mobility and interaction prior to lockdown
  - Level of evidence required to demonstrate the existence of Covid-19 on or in the vicinity of the insured premises
  - Legal interpretations and regulatory expectations of the criteria for eligible claims
- Reinsurance recoveries on both the catastrophe and group volatility covers (GVC) are dependent on the identification and timing of events which trigger a reinsurance recovery claim, and for the GVC, the aggregation of all relevant claims against the retention level. The assessment of impact will develop over time as claims notifications are fully understood. Key reinsurance assumptions made include how reinsurance contracts respond to Covid-19 losses, the date of loss that will apply to Covid-19 claims, how losses are attributed by date, and how aggregation applies across different businesses and territories which share common reinsurance treaties. Failure to recover reinsurance in line with our expectations could lead to a material increase in our reported net liability.

39) Insurance contract liabilities continued

Sensitivities

Sensitivities in the table below show the impact on the net claims reserves of changes to key assumptions in relation to reserving risk and underwriting and claims risk. Whilst the range on the sensitivities was wider in the 2019 Annual Report and Accounts, the new set of metrics shown below are more tailored to the increased uncertainties and more aligned to the key risks as described in note 6.

Impact on net claims reserves	**2020 £m**	2019 £m
Current year attritional loss ratios frequency or severity assumptions +5%	**135–145**	125–135
Current year large loss ratios frequency or severity assumptions +5%	**25–35**	25–35
Inflation being 1% higher than expected for the next 2 years (excluding annuities)	**100–120**	100–120

Net claims reserves for BI losses are not expected to be sensitive to changes in assumptions to the estimates underlying the gross claims reserves, including the number of eligible claimants and legal interpretations of eligibility, provided reinsurance contracts respond as expected.

Discount assumptions

The total value of provisions for losses and loss adjustment expenses less related reinsurance recoveries before discounting is **£8,302m** (2019: £8,081m).

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

		Discount rate		**Average number of years to settlement from reporting date**	
	Category	**2020 %**	2019 %	**2020 Years**	2019 Years
UK	Asbestos and environmental	**4.0**	4.0	**8**	8
UK	Periodic Payment Orders	**4.0**	4.0	**19**	19
Scandinavia	Disability	**1.1**	1.2	**5**	6
Scandinavia	Annuities	**2.3**	2.4	**14**	14
Canada	Excess casualty	**3.5**	3.5	**7**	7

The impact of the reduction in the discount rate on long-term insurance liabilities in Denmark of **£8m** (2019: £15m) has been recognised in unwind of discount and change in economic assumptions in the consolidated income statement.

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

As at 31 December 2020, the value of the discount on net claims liability reserves is **£75m** (2019: £69m) excluding annuities and periodic payment orders. All other factors remaining constant, a decrease of 0.5% in the discount rates would reduce the value of the discount by approximately **£30m** (2019: £20m).

As at 31 December 2020, the value of the discount on UK and Scandinavia annuities is **£472m** (2019: £451m). A decrease of 0.5% in the real discount rate would reduce the value of the discount by approximately **£50m** (2019: £50m). The sensitivity calculation has taken into consideration the undiscounted provisions for each class of business and the respective average settlement period.

Gross insurance contract liabilities and the reinsurers' share of insurance contract liabilities

The Group accounting policies in respect of insurance contract liabilities are described in note 5. The gross insurance contract liabilities and the reinsurers' (RI) share of insurance contract liabilities presented in the consolidated statement of financial position comprise the following:

	Gross 2020 £m	**RI 2020 £m**	**Net 2020 £m**
Provision for unearned premiums	**3,235**	**(716)**	**2,519**
Provision for losses and loss adjustment expenses	**9,379**	**(1,624)**	**7,755**
Total insurance contract liabilities	**12,614**	**(2,340)**	**10,274**

	Gross 2019 £m	RI 2019 £m	Net 2019 £m
Provision for unearned premiums	3,166	(746)	2,420
Provision for losses and loss adjustment expenses	9,141	(1,580)	7,561
Total insurance contract liabilities	12,307	(2,326)	9,981

39) Insurance contract liabilities continued

Provision for unearned premiums, gross of acquisition costs

	2020 £m	2019 £m
Provision for unearned premiums (gross of acquisition costs) at 1 January	**3,812**	3,919
Premiums written	**7,282**	7,461
Less: Premiums earned	**(7,288)**	(7,495)
Changes in provision for unearned premiums	**(6)**	(34)
Exchange adjustment	**54**	(73)
Provision for unearned premiums (gross of acquisition costs) at 31 December	**3,860**	3,812

The provision for unearned premiums is shown net of deferred acquisition costs of **£625m** (2019: £646m). Movements in deferred acquisition costs during the year are as follows:

	2020 £m	2019 £m
Deferred acquisition costs at 1 January	**646**	675
Acquisition costs deferred during the year	**992**	1,058
Amortisation charged during the year	**(1,018)**	(1,085)
Exchange gains/(losses)	**4**	(2)
Other movements	**1**	–
Deferred acquisition costs at 31 December	**625**	646

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

Provisions for losses and loss adjustment expenses

The following changes have occurred in the provisions for losses and loss adjustment expenses during the year:

	2020 £m	2019 £m
Provisions for losses and loss adjustment expenses at 1 January	**9,141**	10,072
Gross claims incurred and loss adjustment expenses	**4,521**	5,059
Total claims payments made in the year net of salvage and other recoveries	**(4,556)**	(5,196)
Disposal of UK Legacy	**–**	(572)
Disposal of Subsidiary	**(10)**	–
Exchange adjustment	**237**	(283)
Unwind of discount and change in economic assumptions	**39**	46
Other movements	**7**	15
Provisions for losses and loss adjustment expenses at 31 December	**9,379**	9,141

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 2010 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.

39) Insurance contract liabilities continued

Consolidated claims development table gross of reinsurance

	2010 and prior £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	Total £m
Estimate of cumulative claims												
At end of accident year	8,596	2,984	2,841	3,149	2,826	2,916	2,815	2,989	3,273	3,165	2,688	
One year later	8,374	3,040	2,881	3,205	2,932	2,958	2,853	3,031	3,412	3,116		
Two years later	8,037	3,069	2,852	3,126	2,845	2,955	2,781	3,008	3,429			
Three years later	7,981	2,995	2,843	3,080	2,828	2,877	2,769	3,006				
Four years later	7,921	2,928	2,794	3,084	2,772	2,872	2,763					
Five years later	7,993	2,895	2,809	3,045	2,741	2,873						
Six years later	8,137	2,891	2,784	3,020	2,729							
Seven years later	7,992	2,856	2,768	2,999								
Eight years later	7,908	2,859	2,761									
Nine years later	7,901	2,849										
Ten years later	7,919											
2020 movement	(18)	10	7	21	12	(1)	6	2	(17)	49		71
Claims paid												
One year later	2,795	1,374	1,348	1,479	1,335	1,475	1,416	1,474	1,567	1,238		
Two years later	1,277	515	502	557	425	547	504	617	520			
Three years later	1,036	332	288	271	289	288	272	266				
Four years later	736	193	187	206	270	179	180					
Five years later	369	108	144	124	188	158						
Six years later	274	77	66	68	109							
Seven years later	324	48	51	52								
Eight years later	109	27	29									
Nine years later	190	23										
Ten years later	72											
Cumulative claims paid	7,182	2,697	2,615	2,757	2,616	2,647	2,372	2,357	2,087	1,238		
Reconciliation to the statement of financial position												
Current year provision before discounting	737	152	146	242	113	226	391	649	1,342	1,878	2,688	8,564
Exchange adjustment to closing rates												49
Discounting												(92)
Annuities												858
Present value recognised in the consolidated statement of financial position												9,379

39) Insurance contract liabilities continued

Consolidated claims development table net of reinsurance

	2010 and prior £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	Total £m
Estimate of cumulative claims												
At end of accident year	7,465	2,519	2,583	2,829	2,485	2,433	2,235	2,279	2,432	2,230	2,048	
One year later	7,212	2,495	2,603	2,926	2,515	2,377	2,286	2,400	2,532	2,212		
Two years later	6,920	2,474	2,584	2,853	2,470	2,342	2,247	2,365	2,527			
Three years later	6,868	2,427	2,543	2,822	2,423	2,277	2,241	2,363				
Four years later	6,844	2,382	2,505	2,785	2,390	2,258	2,244					
Five years later	6,870	2,358	2,503	2,763	2,374	2,267						
Six years later	7,136	2,343	2,483	2,740	2,370							
Seven years later	7,059	2,319	2,469	2,734								
Eight years later	7,000	2,314	2,461									
Nine years later	6,985	2,306										
Ten years later	7,012											
2020 movement	(27)	8	8	6	4	(9)	(3)	2	5	18		12
Claims paid												
One year later	2,340	1,082	1,205	1,405	1,159	1,198	1,051	1,178	1,233	1,019		
Two years later	1,128	409	420	430	366	321	374	409	346			
Three years later	929	267	245	242	215	214	207	202				
Four years later	678	177	192	189	188	153	151					
Five years later	307	105	121	119	126	116						
Six years later	247	64	63	66	75							
Seven years later	298	44	42	50								
Eight years later	97	22	26									
Nine years later	119	22										
Ten years later	70											
Cumulative claims paid	6,213	2,192	2,314	2,501	2,129	2,002	1,783	1,789	1,579	1,019		
Reconciliation to the statement of financial position												
Current year provision before discounting	799	114	147	233	241	265	461	574	948	1,193	2,048	7,023
Exchange adjustment to closing rates												58
Discounting												(75)
Annuities												749
Present value recognised in the consolidated statement of financial position												7,755

40) Insurance and reinsurance liabilities

	2020 £m	2019 £m
Direct insurance creditors	**121**	127
Reinsurance creditors	**811**	843
Total insurance and reinsurance liabilities	**932**	970

41) Post-employment benefits and obligations

Defined contribution pension schemes

Costs of **£68m** (2019: £65m) were recognised in respect of defined contribution schemes by the Group.

The Group's Swedish subsidiaries are part of a multi-employer defined benefit scheme along with other financial institutions in Sweden. As it is not possible to determine the assets and liabilities in respect of any one employer under this scheme, it is included in these accounts as a defined contribution scheme. Contributions of **£5m** (2019: £5m) were paid to this scheme during 2020 and are included in the Group defined contribution costs shown above. The expected contributions in 2021 are **£5m**. Total estimated contributions to the scheme from all employers in 2020 were **£56m** (2019: £50m). The latest information regarding the funding of this scheme is taken from the interim report for the first half of 2020, when the scheme funding rate was **120%** (2019: 118%).

Defined benefit pension schemes and other post-employment benefits

The amounts recognised in the consolidated statement of financial position are as follows:

	2020			2019		
	UK £m	**Other £m**	**Total £m**	UK £m	Other £m	Total £m
Present value of funded obligations	**(8,844)**	**(452)**	**(9,296)**	(8,147)	(435)	(8,582)
Present value of unfunded obligations	**(6)**	**(99)**	**(105)**	(7)	(92)	(99)
Fair value of plan assets	**9,355**	**500**	**9,855**	8,549	467	9,016
Other net surplus remeasurements	**(179)**	**–**	**(179)**	(141)	–	(141)
Net IAS 19 surplus/(deficits) in the schemes	**326**	**(51)**	**275**	254	(60)	194
Defined benefit pension schemes	**326**	**–**	**326**	254	(15)	239
Other post-employment benefits	**–**	**(51)**	**(51)**	–	(45)	(45)
Schemes in surplus (note 32)	**333**	**46**	**379**	261	29	290
Schemes in deficit (note 42)	**(7)**	**(97)**	**(104)**	(7)	(89)	(96)

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.

41) Post-employment benefits and obligations continued

UK Schemes

The major defined benefit pension schemes are located in the UK. The assets of these schemes are mainly held in separate trustee administered funds. The UK defined benefit schemes were effectively closed to new entrants in 2002 and subsequently closed to future accruals with effect from 31 March 2017. UK schemes in surplus have been reduced for the 35% tax cost of an authorised return of surplus, classified as 'Other net surplus remeasurements'. Our opinion is that the authorised refund tax charge is not an income tax within the meaning of IAS 12 and so the surplus is recognised net of this tax charge rather than the tax charge being included within deferred taxation.

The profile of the members of the two main UK schemes at 30 September 2020 (the latest date at which full information is available) is as follows:

Deferred members – members no longer accruing and not yet receiving benefits	**22,710**
Pensioners – members and dependants receiving benefits	**18,840**
Total members at 30 September 2020	**41,550**

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

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

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

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

During 2009 the Group entered into an arrangement that provides coverage against longevity risk for 55% of the retirement obligations relating to pensions in payment of the two largest UK schemes at that time (c.35% coverage based on current pensioner population). The arrangement provides for reimbursement of the covered pension obligations in return for the contractual return receivable on a portfolio of assets (made up of quoted government debt and swaps) held by the pension funds at the inception of the arrangement and which have continued to be held by the schemes. The swaps held are accounted for as a longevity swap, measured at fair value under IFRS by discounting all expected future cash flows using a discount rate consistent with the term of the relevant cash flow. The discount rate used is subject to a degree of judgment, due to the unique characteristics of the swap, and the rate is selected to most closely reflect the economic matching nature of the arrangement within a range of acceptable values obtained from external sources. The total value of the arrangement, including government debt measured at prices quoted in an active market, at 31 December 2020 is **£1,596m** (2019: £1,560m). Management do not believe that there is a significant risk of a material change to the balance in the consolidated statement of financial position net of the associated pension liabilities subject to the arrangement within the next financial year.

In November 2020 the High Court issued a follow-up ruling to the Lloyds Banking Group 2018 case in respect of the equalisation of benefits due to unequal Guaranteed Minimum Pensions (GMPs) for male and female scheme members. The update states that where pension schemes have paid out lump sum transfers in respect of individual members leaving the scheme, these payments should also have been adjusted to allow for GMP equalisation and must therefore be revisited retrospectively. The impact of this on RSA's UK defined benefit schemes has been estimated with an expected cost of **c£1m** recognised in 2020 (c£8m recognised in 2018 in respect of the original 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 2020 and that are due to be paid in 2021 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 2020 was **£84m** (2019: £96m) of which **£75m** (2019: £86m) were additional contributions to reduce funding deficits. Expected contributions to the two schemes for the year ending 31 December 2021 are approximately **£84m** including **£75m** of additional contributions to reduce the deficit.

41) Post-employment benefits and obligations continued

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

The weighted average duration of the defined benefit obligation of the two main UK schemes at the end of the reporting period is **17.5 years** (2019: 17 years).

Non-UK schemes

The Group also operates defined benefits schemes in other countries. The most significant of these schemes are in Canada and Ireland.

The Group also provides post-employment healthcare benefits to certain current and retired Canadian employees. The benefits are not prefunded. Life insurance benefits, which provide varying levels of coverage, are provided at no cost to retirees. Healthcare benefits, which also provide varying levels of coverage, require retiree contributions in certain instances and benefits are generally payable for life. Certain healthcare benefits have been discontinued for active employees retiring after 1 November 2021, resulting in a £14m plan curtailment gain recognised in 2019.

The split of post-employment liabilities across other countries is shown below:

41) Post-employment benefits and obligations continued

All schemes

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

Movement during the year:

	2020			
	Present value of obligations £m	**Fair value of plan assets £m**	**Other net surplus remeasurements £m**	**Net surplus/ (deficit) £m**
At 1 January	**(8,681)**	**9,016**	**(141)**	**194**
Current service costs	**(6)**	**–**	**–**	**(6)**
Past service costs	**(1)**	**–**	**–**	**(1)**
Interest (expense)/income	**(178)**	**186**	**–**	**8**
Administration costs	**–**	**(7)**	**–**	**(7)**
Gains on settlements/curtailments	**1**	**–**	**–**	**1**
Total (expenses)/income recognised in income statement	**(184)**	**179**	**–**	**(5)**
Return on scheme assets less amounts in interest income	**–**	**950**	**–**	**950**
Effect of changes in financial assumptions	**(1,000)**	**–**	**–**	**(1,000)**
Effect of changes in demographic assumptions	**18**	**–**	**–**	**18**
Experience gains and losses	**72**	**–**	**–**	**72**
Investment expenses	**–**	**(10)**	**–**	**(10)**
Other net surplus remeasurements	**–**	**–**	**(38)**	**(38)**
Remeasurements recognised in other comprehensive income	**(910)**	**940**	**(38)**	**(8)**
Employer contribution	**–**	**95**	**–**	**95**
Benefit payments	**376**	**(376)**	**–**	**–**
Exchange adjustment	**(2)**	**1**	**–**	**(1)**
At 31 December	**(9,401)**	**9,855**	**(179)**	**275**
Deferred tax				**15**
IAS 19 net surplus net of deferred tax				**290**

	2019			
	Present value of obligations £m	Fair value of plan assets £m	Other net surplus remeasurements £m	Net surplus/ (deficit) £m
At 1 January	(7,974)	8,265	(129)	162
Current service costs	(5)	–	–	(5)
Past service costs	(1)	–	–	(1)
Interest (expense)/income	(225)	235	–	10
Administration costs	–	(6)	–	(6)
Gains on settlements/curtailments	14	–	–	14
Total (expenses)/income recognised in income statement	(217)	229	–	12
Return on scheme assets less amounts in interest income	–	775	–	775
Effect of changes in financial assumptions	(888)	–	–	(888)
Effect of changes in demographic assumptions	32	–	–	32
Experience gains and losses	18	–	–	18
Investment expenses	–	(8)	–	(8)
Other net surplus remeasurements	–	–	(12)	(12)
Remeasurements recognised in other comprehensive income	(838)	767	(12)	(83)
Employer contribution	–	107	–	107
Benefit payments	352	(352)	–	–
Exchange adjustment	(4)	–	–	(4)
At 31 December	(8,681)	9,016	(141)	194
Deferred tax				17
IAS 19 net surplus net of deferred tax				211

41) Post-employment benefits and obligations continued

The values of scheme assets are as follows:

	2020 UK £m	2020 Other £m	2020 Total £m	2019 UK £m	2019 Other £m	2019 Total £m
Equities	**545**	**124**	**669**	704	118	822
Government debt	**6,514**	**336**	**6,850**	5,919	319	6,238
Non-government debt	**3,493**	**1**	**3,494**	2,705	–	2,705
Derivatives	**1,061**	**–**	**1,061**	827	–	827
Property	**636**	**–**	**636**	646	–	646
Cash	**191**	**11**	**202**	83	7	90
Other (including annuity contracts, infrastructure and growth alternatives)	**362**	**28**	**390**	456	23	479
Investments	**12,802**	**500**	**13,302**	11,340	467	11,807
Value of asset and longevity swaps	**(3,447)**	**–**	**(3,447)**	(2,791)	–	(2,791)
Total assets in the schemes	**9,355**	**500**	**9,855**	8,549	467	9,016

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

	2020 Total Quoted £m	2020 Total Unquoted £m	2020 Total £m	2019 Total Quoted £m	2019 Total Unquoted £m	2019 Total £m
Equities	**563**	**106**	**669**	639	183	822
Government debt	**6,850**	**–**	**6,850**	5,773	465	6,238
Non-government debt	**1,928**	**1,566**	**3,494**	1,649	1,056	2,705
Derivatives	**–**	**1,061**	**1,061**	–	827	827
Property	**1**	**635**	**636**	1	645	646
Cash	**202**	**–**	**202**	90	–	90
Other (including annuity contracts, infrastructure and growth alternatives)	**–**	**390**	**390**	–	479	479
Investments	**9,544**	**3,758**	**13,302**	8,152	3,655	11,807
Value of asset and longevity swaps	**–**	**(3,447)**	**(3,447)**	–	(2,791)	(2,791)
Total assets in the schemes	**9,544**	**311**	**9,855**	8,152	864	9,016

Where assets are classified as unquoted the valuations are:

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

Notes to the consolidated statement of financial position continued

41) Post-employment benefits and obligations continued

Assumptions

The weighted average principal actuarial assumptions used are:

	UK		Other	
	2020 %	2019 %	**2020 %**	2019 %
Assumptions used in calculation of retirement benefit obligations:				
Discount rate	**1.38**	2.05	**2.38**	2.87
Annual rate of inflation (RPI)	**2.92**	2.96	**–**	–
Annual rate of inflation (CPI)	**2.26**	1.96	**1.48**	1.27
Annual rate of increase in salaries	**n/a**	n/a	**2.76**	2.51
Annual rate of increase in pensions[1]	**2.79**	2.82	**1.48**	1.27
Assumptions used in calculation of pension net interest costs for the year:				
Discount rate	**2.05**	2.83	**2.87**	3.57

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%.

During the year a change was made to our actuarial provider of IAS 19 discount rate. The underlying principles of this assumption remain unchanged and, while the impact will vary slightly at different dates, it is expected to remain broadly neutral (1bp at 31 December 2019, which is equivalent to less than a £5m decrease in net IAS 19 surplus).

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 2019 tables (2019: CMI 2018 tables) with a long term improvement rate of **1.25%** (2019: 1.25%). The weighted average assumptions imply that a current pensioner aged 60 has an expected future lifetime of **27.0** (2019: 27.0) years for males and **28.5** (2019: 28.5) years for females and a future pensioner aged 60 in 15 years' time has a future expected lifetime from age 60 of **28.0** (2019: 28.0) years for males and **29.7** (2019: 29.7) years for females.

Sensitivity analysis

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

	Changes in assumption	**2020 £m**	2019 £m
Discount rate	Increase by 0.25%	**(369)**	(334)
	Decrease by 0.25%	**394**	357
RPI/CPI[1]	Increase by 0.25%	**233**	211
	Decrease by 0.25%	**(227)**	(205)
Core mortality rates[2]	Decrease by 12%	**376**	328
	Increase by 12%	**(377)**	(371)
Long-term future improvements to mortality rates	Increase by 0.25%	**84**	73
	Decrease by 0.25%	**(83)**	(72)

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.

42) Provisions

	2020 £m	2019 £m
Pensions and post-employment obligations (note 41)	**104**	96
Reorganisation provisions	**34**	13
Other provisions	**34**	38
Total provisions at 31 December	**172**	147
To be settled within 12 months	**69**	41
To be settled after 12 months	**103**	106

Reorganisation provisions include **£27m** (2019: £11m) relating to redundancy costs for plans which were announced to employees before 31 December 2020 and are expected to be settled before 31 December 2021.

Other provisions includes **£13m** (2019: £14m) held relating to property dilapidations and refurbishments, the costs relating to which will be borne across the period over which the leases expire, which is up to 20 years.

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

See note 41 for further information regarding the pensions and post-employment benefit obligations.

Movements during the year on reorganisation and other provisions

	Reorganisation provisions 2020 £m	Other provisions 2020 £m
Provisions at 1 January 2020	**13**	**38**
Additional provisions during the year	**70**	**14**
Utilised	**(49)**	**(15)**
Released	**–**	**(3)**
Provisions at 31 December 2020	**34**	**34**

43) Other liabilities

	2020 £m	2019 £m
Deposits received from reinsurers	**8**	11
Derivatives designated as accounting hedges (note 26)	**48**	30
Other derivatives (note 26)	**97**	65
Other creditors	**418**	387
Accruals	**392**	378
Deferred income	**63**	47
Lease liabilities (note 44)	**204**	258
Total other liabilities	**1,230**	1,176
To be settled within 12 months	**927**	836
To be settled after 12 months	**303**	340

Other creditors of **£418m** (2019: £387m) mainly includes payroll and other indirect taxes **£170m** (2019: £167m), outstanding settlements for investment purchases **£100m** (2019: £63m) and other creditors **£148m** (2019: £157m).

44) Leases

Leases as a lessee

The Group leases land and buildings and other assets such as vehicles, IT equipment, servers and mainframes (reported as other) to operate its business in each of its core regions. The remaining lease terms for the main office premises range from 1 to 18 years.

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

Information about leases for which the Group is a lessee is presented below.

Right-of-use assets

	Land and buildings £m	Other £m	Total £m
Amounts recognised at transition on 1 January 2019	190	49	239
Depreciation charge for the year	(30)	(12)	(42)
Additions to right-of-use assets	28	3	31
Remeasurements	(10)	–	(10)
Impairments	(2)	–	(2)
Other[1]	(2)	(1)	(3)
Balance at 31 December 2019	**174**	**39**	**213**
Depreciation charge for the year	**(30)**	**(12)**	**(42)**
Additions to right-of-use assets	**9**	**3**	**12**
Remeasurements	**(4)**	**(21)**	**(25)**
Impairments	**(15)**	**–**	**(15)**
Other[2]	**9**	**(1)**	**8**
Balance at 31 December 2020	**143**	**8**	**151**

1. Other mainly includes foreign exchange.
2. Other includes **£6m** transfer from Other debtors, **£(3)m** transfer to Investment property in respect of subleases and foreign exchange.

Impairment assessment

In response to Covid-19 substantially all of the Group's employees temporarily moved from office to home working. Some territories have returned to the office however a large proportion of the Group's leased office space is not currently being fully utilised. Further to the success of home working and in conjunction with the UK restructuring programme, a review of the future working locations of employees and required office space usage has been undertaken. These factors were considered to be impairment indicators and therefore impairment assessments of property and equipment including right-of-use assets has been undertaken. Subsequently, impairments of **£15m** of right-of-use assets have been recognised in underwriting and policy acquisition costs (**£8m**: **£6m** UK&I and **£2m** Scandinavia) and other operating expenses (**£7m**: all UK&I) mainly relating to office floor space which is not expected to be utilised in the future.

The key judgements and assumptions considered in the impairment reviews were as follows:

- Office space was distinguished between:
  - Office space that is temporarily underutilised and has not been impaired on the basis that the space will be utilised again in the future when office working resumes
  - Office space that will remain vacant and no longer be utilised as a result of the reduced need for working space for the reasons mentioned above
- The likelihood of activating future break clauses on remaining leases where office space is still utilised have been assessed and assets re-measured (together with associated lease liabilities) where it is likely that clauses will be invoked.
- The recoverable amount of the right-of-use assets relating to permanently vacant office space was based on their value in use and include several key assumptions. These include:
  - The ability to sublet and the timing of agreements, if considered possible
  - The level of rent charged
  - The discount rate which is assumed to be the Group weighted average cost of capital (WACC)
  - Identification of other relevant cash flows to include such as future service charges and insurance

The key judgements and assumptions used in measuring the recoverable amounts of the impaired right of use assets are not deemed materially sensitive. An adverse extreme change in all key judgements and assumptions included in the calculation of the recoverable amount would result in additional impairment of **£4m**.

Lease liabilities

Lease liabilities of **£204m** (2019: £258m) are included within other liabilities in the consolidated statement of financial position (see note 43). The maturity analysis of this balance can be found in note 6 on page 119.

Three leases relating to property and computer mainframes that incept in 2021 were signed for before the balance sheet date. Therefore future cash flows of **£31m** were committed at the balance sheet data but are not reflected in the lease liabilities (or right of use assets).

44) Leases continued

Two properties in Canada have lease terms ending January 2028 and December 2033 with the option to extend the leases for two further consecutive periods of five years each. The extension options have not been included in the determination of the lease term and therefore the measurement of the lease liabilities.

A reconciliation of lease liabilities is presented below.

	2020 £m	2019 £m
Balance at 1 January	**258**	279
Lease payments	**(50)**	(50)
Additions to lease liabilities	**12**	31
Remeasurements	**(25)**	(6)
Interest on lease liabilities	**6**	7
Foreign exchange	**3**	(3)
Balance at 31 December	**204**	258

Other amounts recognised in profit or loss

Leases under IFRS 16	2020 £m	2019 £m
Interest on lease liabilities	**6**	7
Expenses relating to short-term leases	**–**	4
Expenses relating to leases of low-value assets	**3**	3
Expenses relating to variable lease payments	**8**	–

Amounts recognised in statement of cash flows

	2020 £m	2019 £m
Total cash outflow for leases	**61**	57

Total cash outflow for leases primarily relates to finance leases, with the principal and interest portion recognised separately within financing activities in the consolidated statement of cash flows. It also includes short term lease payment, payments for leases of low value assets and variable lease payments which are reported within operating activities.

Leases as a lessor

The Group leases out its investment property consisting of freehold and leasehold land and buildings, as disclosed in note 25. All leases are classified as operating leases from a lessor perspective with the exception of sub-leases, which the Group has classified as finance sub-leases.

Finance leases

The Group has sub-let office floor space in Canada and the UK for which the head leases have been presented as part of the land and buildings right-of-use asset. The sub-leases have been classified as finance leases because the sub-lease is for the whole remaining term of the head lease. The net investments in the subleases have been reported within other debtors.

During 2020, the Group recognised interest income on lease receivables of **£1m** (2019: £1m).

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

	Land and buildings	
	2020 £m	2019 £m
Less than one year	**2**	3
One to two years	**3**	3
Two to three years	**2**	3
Three to four years	**2**	3
Four to five years	**2**	3
More than five years	**3**	9
Total undiscounted lease receivable	**14**	24
Unearned finance income	**(1)**	(2)
Net investment in the lease	**13**	22

Notes to the consolidated statement of financial position continued

44) Leases continued

Operating leases

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

During 2020, the Group recognised **£18m** of rental income within its net investment return (2019: £19m).

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

	Land and buildings	
	2020 £m	2019 £m
Less than one year	**15**	17
One to two years	**15**	16
Two to three years	**14**	15
Three to four years	**11**	14
Four to five years	**10**	11
More than five years	**41**	51
Total	**106**	124

Notes to the consolidated statement of cash flows

45) Reconciliation of cash flows from operating activities

The reconciliation of net profit before tax to cash flows from operating activities is as follows:

	Note	**2020 £m**	2019 £m
Cash flows from operating activities			
Profit for the year before tax		**483**	492
Adjustments for non-cash movements in net profit for the year			
Amortisation of available for sale assets		**49**	44
Depreciation and impairment of tangible assets	24/44	**74**	59
Amortisation and impairment of intangible assets and goodwill	23	**100**	84
Fair value (gains) / losses on financial assets		**–**	1
Impairment charge on available for sale financial assets	10	**32**	–
Share of profit of associates		**(1)**	(1)
Loss on disposal of businesses	7	**6**	14
Other non-cash movements		**(8)**	86
Changes in operating assets/liabilities			
Loss and loss adjustment expenses		**(41)**	(113)
Unearned premiums		**48**	(37)
Movement in working capital		**(40)**	(63)
Reclassification of investment income and interest paid		**(282)**	(319)
Pension deficit funding	41	**(75)**	(87)
Cash generated from investment of insurance assets			
Dividend income		**28**	37
Interest and other investment income		**288**	316
Cash flows from operating activities		**661**	513

46) Reconciliation of movements of liabilities arising from financing activities

The table below details changes in liabilities arising from the Group's financing activities.

	Issued debt £m	Accrued interest payable on issued debt £m	Lease liabilities £m	Borrowings from credit institutions under repurchase agreements £m	Total £m
Balance at 1 January 2020	**750**	**7**	**258**	**146**	**1,161**
Changes from financing cash flows					
Payment of lease liabilities	**–**	**–**	**(44)**	**–**	**(44)**
Net movement in other borrowings	**–**	**–**	**–**	**(33)**	**(33)**
Interest paid	**–**	**(27)**	**(6)**	**–**	**(33)**
Total changes from financing cash flows	**–**	**(27)**	**(50)**	**(33)**	**(110)**
The effect of changes in foreign exchange rates	**–**	**–**	**4**	**8**	**12**
Interest Charge	**–**	**27**	**6**	**–**	**33**
Other changes	**1**	**–**	**(14)**	**–**	**(13)**
Balance at 31 December 2020	**751**	**7**	**204**	**121**	**1,083**

	Issued debt £m	Accrued interest payable on issued debt £m	Lease liabilities £m	Borrowings from credit institutions under repurchase agreements £m	Total £m
Restated balance at 1 January 2019	441	7	279	107	834
Changes from financing cash flows					
Proceeds from issue of loan capital	348	–	–	–	348
Redemption of debt instruments	(39)	–	–	–	(39)
Payment of lease liabilities	–	–	(43)	–	(43)
Net movement in other borrowings	–	–	–	43	43
Interest paid	–	(26)	(7)	–	(33)
Total changes from financing cash flows	309	(26)	(50)	43	276
The effect of changes in foreign exchange rates	–	–	(3)	(4)	(7)
Interest Charge	–	26	7	–	33
Other changes	–	–	25	–	25
Balance at 31 December 2019	750	7	258	146	1,161

Other commitments, contingent liabilities and events after the reporting period

47) Other commitments

Capital commitments

The Group's significant capital commitments in respect of investment property, property and equipment and intangible assets are detailed in the table below:

	2020 £m	2019 £m
Investment Property	**23**	–
Property and equipment	**8**	6
Intangible assets	**21**	11
Total	**52**	17

Funding commitments to structured entities and invested assets

The future commitments to structured entities are disclosed in note 28 of these financial statements. In addition, the Group has committed to invest **£319m** (2019: £185m) in other classes of investments.

48) Other contingent liabilities

In Canada the Group has purchased annuities from regulated Canadian life insurers in order to pay fixed and recurring payments to certain claimants. This arrangement exposes the Group to a credit risk that the life insurers are unable to make these payments, which is mitigated by an industry compensation scheme which in that event would assume a significant majority of the remaining outstanding obligations. The likelihood of both a Canadian regulated life insurer and the industry compensation scheme being unable to pay their obligations is considered very remote and so no provision has been recognised in respect of this risk. There are no such industry compensation schemes in other regions.

The Group receives liability claims and becomes 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.

A small number of litigation claims for unpaid BI claims have been filed outside of the UK FCA test case in other regions. RSA conducts a thorough claims assessment process for all BI claims received. Most BI coverages are not expected to be eligible under their terms for Covid-19 claims. In areas of litigation, the claims assessment is supported with legal advice and consequently claims reserves are not held in respect of adverse outcomes beyond the cost of litigation.

49) Events after the reporting period

On 18 January 2021 the Group's shareholders voted to approve a takeover proposal received from a consortium of two companies, Intact Financial Corporation and Tryg. Further steps are required to complete the transaction and RSA continues to operate as an independent company until the sale is complete.

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
- The ability to use its power over the subsidiary to affect its returns

Subsidiaries are fully consolidated from the date on which control is entitled by the Group. They are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of acquisition.

For business combinations completed on or after 1 January 2010 the cost of acquisition includes the fair value of deferred and contingent consideration at the acquisition date and subsequent changes in the carrying value of the consideration are recognised in the consolidated income statement. For business combinations completed prior to 31 December 2009, the cost also includes costs directly attributable to the acquisition and the value of contingent consideration on settlement.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

Changes in the ownership interests of a subsidiary between shareholders of the Group and shareholders holding a non-controlling interest are accounted for as transactions between equity holders of the Group. Any difference between the fair value of the consideration given by the transferee and the carrying value of the ownership interest transferred is recognised directly in equity.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries are aligned to ensure consistency with the policies adopted by the Group.

Investment in associates

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost.

The Group's share of its associates' profits or losses are recognised in the consolidated income statement and its share of comprehensive income is recognised in the consolidated statement of comprehensive income. The cumulative post acquisition movements are adjusted in the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Adjustments are made on consolidation, where necessary, to the accounting policies of associates to ensure consistency with the policies adopted by the Group.

Translation of foreign operations

The results and financial position of subsidiaries and associates whose functional currency is not Sterling are translated into Sterling as follows:

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

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are recognised in other comprehensive income within the foreign currency translation reserve. Further information can be found in note 22. When a foreign entity is sold, the cumulative exchange differences relating to that foreign entity are recognised in the consolidated income statement as part of the gain or loss on disposal.

Foreign currency transactions

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

Internal loans

Where non-Sterling loans are provided by RSA Insurance Group plc to its subsidiaries, the settlement of which is neither planned nor likely to occur in the foreseeable future, they are treated as part of its net investment in subsidiary in the consolidated financial statements which results in foreign exchange gains and losses being recognised in revaluation reserves.

Appendix A: Other accounting policies continued

Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to the ordinary shareholders of the Parent Company by the weighted average number of ordinary shares in issue during the period, excluding ordinary shares purchased by various share trusts of the Group and held as own shares.

Diluted earnings per share is calculated by increasing the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares, notably those related to the employee share schemes.

Hedge accounting

Transactions are classified as hedging transactions when the following conditions for hedge accounting are met:

- There is a formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge
- The hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistent with the originally documented risk management strategy for that particular hedging relationship
- The effectiveness of the hedge can be reliably measured
- The hedge is assessed on an ongoing basis and determined to have been highly effective

Hedge of a net investment in a foreign operation

Where a foreign exchange derivative is designated as a hedging instrument against a net investment in foreign operations, the effective portion of the hedge is recognised in other comprehensive income; the gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement. At the point at which the net investment in the foreign operation is derecognised, the gains and losses accumulated in other comprehensive income are transferred to the consolidated income statement.

On designation of forward foreign exchange contracts the interest element is separated from the forward exchange rate and is excluded from the hedge relationship. Effectiveness of the hedge is then measured using the spot rate, which is also the exchange rate used when measuring the net investment in the designated subsidiaries.

For foreign exchange options the hedge designation is to hedge the value of the foreign operations at the strike price at the exercise date of the option.

Hedge of future cash flows

Where a derivative is designated as a hedging instrument against the cash flows from a fixed interest security, the gains and losses arising from the change in fair value of the derivative are recognised initially in other comprehensive income in the cash flow hedge reserve. This amount is adjusted to be the lesser of the cumulative gain or loss on the derivative and the cumulative change in fair value of the expected future cash flows of the security, both since the inception of the hedge.

The accumulated amount in the cash flow hedge reserve, is reclassified to the consolidated income statement in the period in which the hedged cash flows affect profit or loss.

Hedge of changes in fair value

Where a derivative is designated as a hedging instrument in a fair value hedge of the changes in value of a fixed interest security, the gains and losses arising from the change in fair value of the derivative are recognised in the consolidated income statement. The change in fair value of the hedged investments (classified as available for sale) that are attributable to the hedged risk is transferred from the revaluation reserve to the consolidated income statement.

Property and equipment

Property and equipment is comprised of Group occupied land and buildings and other equipment (comprising of fixtures, fittings and other equipment including computer hardware and motor vehicles) and is initially recognised at cost.

Group occupied property is stated at fair value, less subsequent depreciation for buildings. The fair value methodology is set out in note 27. Increases in the carrying amount arising on revaluation are recognised in other comprehensive income and credited to a separate revaluation reserve within equity. Decreases in the carrying amount arising on revaluation are recognised in other comprehensive income and reduce the revaluation reserve, to the extent they offset previous revaluation increases; further decreases are charged to the consolidated income statement. Buildings are depreciated to their residual value on a straight line basis over the useful economic life of the building; depreciation is charged to the consolidated income statement except where a building has been revalued upwards, in which case the amount of the depreciation relating to the difference between the buildings revalued amount and the original cost is transferred from revaluation reserve to retained earnings. Land is not depreciated.

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

The estimated useful lives of property and equipment are as follows:

Group occupied buildings	normally 30 years
Fixtures and fittings	10 years
Equipment	3 – 5 years

Appendix A: Other accounting policies continued

The useful economic life and residual value are reviewed on an annual basis. Where the carrying value of an asset is deemed to be greater than its recoverable amount the asset is impaired. Impairment losses on non-revalued assets are recognised in the consolidated income statement. Impairment losses on revalued assets are recognised in other comprehensive income to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same asset. Impairment losses may be subsequently reversed if there is a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If this is the case, the increased carrying amount of an asset shall not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are recognised in the consolidated income statement except for reversals of impairment losses on revalued assets which are recognised in other comprehensive income similarly to the initially recorded impairment loss.

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 27. Unrealised gains and unrealised losses are recognised in net investment return in the consolidated income statement. Rental income from operating leases on investment property is recognised in the consolidated income statement on a straight line basis over the length of the lease.

Policy acquisition costs

Policy acquisition costs incurred in acquiring insurance contracts include commissions and premium levies directly related to the writing or renewal of insurance policies. These acquisition costs are deducted from unearned premiums and recognised in the consolidated income statement on the same basis as the unearned premiums.

Issued debt

Issued debt comprises subordinated bonds and senior notes which are initially measured at the consideration received less transaction costs. Subsequently, issued debt is measured at amortised cost using the effective interest rate method.

Provisions

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

Contingent liabilities

A contingent liability is disclosed if the Group has a possible future obligation as a result of past events, and either the amount of the expected future outflow of economic resources or the likelihood of payment cannot be reliably estimated.

Termination benefits

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

Own shares

Own shares are deducted from equity. No gain or loss is recognised on the purchase, sale, issue or cancellation of shares. Any consideration paid or received is recognised directly in equity.

Other operating income

Other operating income is comprised principally of:

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

Share-based payments

The fair value of the employee share options and other equity settled share-based payments is calculated at the grant date and recognised as an expense over the vesting period. The vesting/maturity of share awards can be 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 are credited to share capital (nominal value) and share premium, 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 19 and in the Directors' Remuneration Report.

Appendix A: Other accounting policies continued

Dividends

The final dividend is recognised as a liability when approved at the Annual General Meeting.

Leases

The Group as lessee

A lease liability and right-of-use asset is recognised for all lease obligations the Group has as a lessee, except for the following recognition exemptions that the Group has elected to use: lease contracts that at the commencement date have a lease term of 12 months or less and that do not contain a purchase option and lease contracts for which the underlying asset is of low value.

The lease liability is recognised at the inception of a lease as the present value of the fixed and certain variable lease payments, plus any guaranteed residual values, any termination penalties if the lease term assumes termination options will be exercised, and the purchase option value if it is reasonably certain that it will be exercised.

Interest is accrued on the lease liability based on the discount rate at commencement of the lease, and is accounted for in finance costs. The discount rate is the rate implicit in the lease, except where this rate cannot be readily determined, in which case the Group's incremental borrowing rate is used. Subsequent payments are deducted from the lease liability.

The right-of-use asset is initially measured as the value of the lease liability, adjusted for any initial direct costs incurred to obtain the lease restoration provisions and any lease payments made before the commencement of the lease.

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

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

Remeasurements in the lease liability are reflected in the measurement of the corresponding right-of-use asset with reductions being restricted to the carrying value with any remaining remeasurement being recognised in the consolidated income statement.

The Group as lessor

Where the Group act as a lessor the lease will be classified as a finance lease if it transfers substantially all the risk and rewards incidental to ownership of the underlying asset, or otherwise as an operating lease (refer to 'Investment property and rental income' policy).

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

Amounts due from lessees under finance leases are recognised as receivables within Other debtors at the amount of the Group's net investment in the lease. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Finance lease income is calculated with reference to the gross carrying amount of the lease receivables.

Appendix B: Subsidiaries and associates

Unless otherwise stated, the share capital disclosed comprises ordinary shares (or equivalent) which are 100% held within the Group. All of the subsidiaries listed are wholly owned within the Group and included in the consolidated accounts.

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

Name and country of incorporation	Registered office addresses	Class of shares held	Percentage Holding (%)
Bahrain			
Royal & Sun Alliance Insurance (Middle East) BSC (c)	Impact House, Building, office no. 21, 2nd floor, Building no. 662, Road no. 2811, Black no. 428, Al Seef, Manama, Kingdom of Bahrain		50.00002
Brazil			
Royal & Sun Alliance Insurance plc - Escritório de Representação no Brasil Ltda.	Avenida Major Sylvio de Magalhães Padilha, 5200, America Business Park, Ed. Dallas, conj. 31, sala 02, Jardim Morumbi, Zip Code 05693-000, City of São Paulo, State of São Paulo, Brazil		
Canada			
10622923 Canada Limited	18 York Street, Suite 800, Toronto ON M5J 2T8, Canada	Common	
10622923 Canada Limited[4]	18 York Street, Suite 800, Toronto ON M5J 2T8, Canada	Preferred	
3342484 Canada Limited	18 York Street, Suite 800, Toronto ON M5J 2T8, Canada		
8301140 Canada Limited	18 York Street, Suite 800, Toronto ON M5J 2T8, Canada	Common	
8301140 Canada Limited[4]	18 York Street, Suite 800, Toronto ON M5J 2T8, Canada	Preferred	
Ascentus Insurance Ltd.	18 York Street, Suite 800, Toronto ON M5J 2T8, Canada		
Roins Financial Services Limited	18 York Street, Suite 800, Toronto ON M5J 2T8, Canada	Common	
Roins Financial Services Limited[4]	18 York Street, Suite 800, Toronto ON M5J 2T8, Canada	Preference	
Roins Holding Limited	18 York Street, Suite 800, Toronto ON M5J 2T8, Canada		
Royal & Sun Alliance Insurance Company of Canada[4]	18 York Street, Suite 800, Toronto ON M5J 2T8, Canada	Class A Preferred	
Royal & Sun Alliance Insurance Company of Canada	18 York Street, Suite 800, Toronto ON M5J 2T8, Canada	Common	99.996
RSA Travel Insurance Inc.	18 York Street, Suite 800, Toronto ON M5J 2T8, Canada		
Western Assurance Company	18 York Street, Suite 800, Toronto ON M5J 2T8, Canada		
Coast Underwriters Limited[4]	208-4940 No. 3 Road, Richmond BC V6X 3A5, Canada	Class 1 Preferred Unlimited	
Coast Underwriters Limited[4]	208-4940 No. 3 Road, Richmond BC V6X 3A5, Canada	Class 2 Preferred Unlimited	
Coast Underwriters Limited	208-4940 No. 3 Road, Richmond BC V6X 3A5, Canada	Class A	85.42
Coast Underwriters Limited[4]	208-4940 No. 3 Road, Richmond BC V6X 3A5, Canada	Class B1	
Coast Underwriters Limited[4]	208-4940 No. 3 Road, Richmond BC V6X 3A5, Canada	Class B2	
Coast Underwriters Limited[4]	208-4940 No. 3 Road, Richmond BC V6X 3A5, Canada	Class B3	
MRM Solutions Limited	208-4940 No. 3 Road, Richmond BC V6X 3A5, Canada	Class A Common	
MRM Solutions Limited[4]	208-4940 No. 3 Road, Richmond BC V6X 3A5, Canada	Class B Common	
Canadian Northern Shield Insurance Company	555 West Hastings Street, Suite 1900, Vancouver BC V6B 4N6, Canada		
Quebec Assurance Company	2475 Laurier Blvd., Quebec City, Québec G1T 1C4, Canada		
Shaw Sabey & Associates Ltd[3]	1800 – 401 West Georgia Street, Vancouver BC V6B 5A1, Canada	Class B Common Shares	25.00
Johnson Inc.	Fort William Building, 10 Factory Lane, St. John's Newfoundland A1C 6H5, Canada	Series A Common	
Johnson Inc.	Fort William Building, 10 Factory Lane, St. John's Newfoundland A1C 6H5, Canada	Series B Common	
The Johnson Corporation	Fort William Building, 10 Factory Lane, St. John's Newfoundland A1C 6H5, Canada		
Unifund Assurance Company	Fort William Building, 10 Factory Lane, St. John's Newfoundland A1C 6H5, Canada	Common	
Unifund Assurance Company[4]	Fort William Building, 10 Factory Lane, St. John's Newfoundland A1C 6H5, Canada	Preferred	
Unifund Claims Inc.	Fort William Building, 10 Factory Lane, St. John's Newfoundland A1C 6H5, Canada		
10122033 Canada Inc.	95 Mural Street, Suite 400, Richmond Hill ON L4B 3G2, Canada	Common	
10122033 Canada Inc.[4]	95 Mural Street, Suite 400, Richmond Hill ON L4B 3G2, Canada	Class A Preferred	
2029974 Ontario Inc.[7]	95 Mural Street, Suite 400, Richmond Hill ON L4B 3G2, Canada	Class A Common	
2029974 Ontario Inc.[7]	95 Mural Street, Suite 400, Richmond Hill ON L4B 3G2, Canada	Class B Common	
2029974 Ontario Inc.[4]	95 Mural Street, Suite 400, Richmond Hill ON L4B 3G2, Canada	Class C Special	
2029974 Ontario Inc.[4]	95 Mural Street, Suite 400, Richmond Hill ON L4B 3G2, Canada	Class D Special	
2029974 Ontario Inc.[4]	95 Mural Street, Suite 400, Richmond Hill ON L4B 3G2, Canada	Class E Special	
2029974 Ontario Inc.[4]	95 Mural Street, Suite 400, Richmond Hill ON L4B 3G2, Canada	Class N Special	
2029974 Ontario Inc.[4]	95 Mural Street, Suite 400, Richmond Hill ON L4B 3G2, Canada	Class S Special	
2029974 Ontario Inc.[7]	95 Mural Street, Suite 400, Richmond Hill ON L4B 3G2, Canada	Class V Special	
D.L. Deeks Insurance Services Inc.	95 Mural Street, Suite 400, Richmond Hill ON L4B 3G2, Canada		

Appendix B: Subsidiaries and associates continued

Name and country of incorporation	Registered office addresses	Class of shares held	Percentage Holding (%)
Deeks Investments Inc.[4]	95 Mural Street, Suite 400, Richmond Hill ON L4B 3G2, Canada	Class A Preference	
Deeks Investments Inc.	95 Mural Street, Suite 400, Richmond Hill ON L4B 3G2, Canada	Class B Preference	
Deeks Investments Inc.	95 Mural Street, Suite 400, Richmond Hill ON L4B 3G2, Canada	Class C Preference	
Deeks Investments Inc.[4]	95 Mural Street, Suite 400, Richmond Hill ON L4B 3G2, Canada	Common	
Denmark			
Codan A/S	Codanhus, Gammel Kongevej 60, DK-1790 Kobenhavn V, Denmark		
Codan Forsikring A/S	Codanhus, Gammel Kongevej 60, DK-1790 Kobenhavn V, Denmark		
Forsikringsselskabet Privatsikring A/S	Codanhus, Gammel Kongevej 60, DK-1790 Kobenhavn V, Denmark		
Guernsey			
Insurance Corporation of the Channel Islands Limited	Dixcart House, Sir William Place, St. Peter Port, Guernsey, GY1 4EY		
Insurance Corporation Service Company Limited	Dixcart House, Sir William Place, St. Peter Port, Guernsey, GY1 4EY		
India			
Royal & Sun Alliance IT Solutions (India) Private Limited	Rider House, Plot No.136, Sector 44, Gurgaon, Haryana, 122002, India		
RSA Actuarial Services (India) Private Limited[8]	First Floor, Building 10 C, Cyber City Complex, DLF Phase II, Gurgaon, Haryana, 122002, India		
Ireland			
123 Money Limited[4, 8]	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland	B1 Ordinary	
123 Money Limited[4, 8]	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland	B2 Ordinary	
123 Money Limited[4, 8]	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland	B3 Ordinary	
123 Money Limited[4, 8]	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland	B4 Ordinary	
123 Money Limited[4, 8]	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland	B5 Ordinary	
123 Money Limited[4, 8]	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland	C Ordinary	
123 Money Limited[8]	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland		
123 Money Limited[8]	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland	€1 redeemable shares	
Benchmark Underwriting Limited[8]	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland		
EGI Holdings Limited[8]	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland		
RSA Insurance Ireland DAC	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland		
RSA Overseas Holdings (No 1) Unlimited Company[8]	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland		
RSA Overseas Holdings (No. 2) Unlimited Company[8]	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland		
RSA Reinsurance Ireland Limited	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland		
RSA Broker Motor Insurance Ireland Limited (previously Sertus Underwriting Limited)[8]	RSA House, Dundrum Town Centre, Sandyford Road, Dublin 16, Ireland		
Isle of Man			
RSA Isle of Man No.1 Limited[8]	33-37 Athol Street, Douglas, IM1 1LB, Isle of Man		
Royal Insurance Service Company (Isle of Man) Limited[8]	Jubilee Buildings, 1 Victoria Street, Douglas, IM99 1BF, Isle of Man		
Tower Insurance Company Limited	Jubilee Buildings, 1 Victoria Street, Douglas, IM99 1BF, Isle of Man		
Luxembourg			
RSA Luxembourg S.A.[8]	40 rue du Cure, L-1368 Luxembourg		
Netherlands			
IDIP Direct Insurance B.V.[8]	20 Fenchurch Street, London, EC3M 3AU, United Kingdom		
Intouch Insurance Group B.V.[8]	20 Fenchurch Street, London, EC3M 3AU, United Kingdom		
RSA Overseas (Netherlands) B.V.[8]	20 Fenchurch Street, London, EC3M 3AU, United Kingdom		
RSA Overseas Holdings B.V.[8]	20 Fenchurch Street, London, EC3M 3AU, United Kingdom		
GDII - Global Direct Insurance Investments V.O.F.[8]	Wilhelminakade 97-99, 3072 AP Rotterdam, Netherlands	Partnership Interest	
Royal Insurance Global B.V.[8]	Wilhelminakade 97-99, 3072 AP Rotterdam, Netherlands		
Oman			
Al Ahlia Insurance Company SAOG[6]	PO Box 1463, PC112, Ruwi, Oman		52.50
Saudi Arabia			
Al Alamiya for Cooperative Insurance Company[6]	Office No.203, 2nd Floor, Home Centre Building, Tahlia Street, Suleymaniyah, Riyadh, Kingdom of Saudi Arabia		50.07
Sweden			
Holmia Livforsakring AB	c/o Trygg-Hansa Försäkring Filial, Fleminggatan 18, 10626, Stockholm, Sweden		
CAB Group AB[3]	Stortorget 11, S-702 11 Örebro, Sweden		27.27

Appendix B: Subsidiaries and associates continued

Name and country of incorporation	Registered office addresses	Class of shares held	Percentage Holding (%)
United Kingdom			
Centrium Management Company Limited[3]	5th Floor, United Kingdom House, 180 Oxford Street, London, W1D 1NN, United Kingdom		31.45
Punchbowl Park Management Limited[3, 5]	10 Buckingham Gate, London, SW1E 6LA, United Kingdom		65.09
Eurotempest Limited[3]	c/o UCL Business Plc, The Network Building 97, Tottenham Court Road, London, W1T 4TP, United Kingdom		33.33
Polaris U.K. Limited[3]	New London House, 6 London Street, London, EC3R 7LP, United Kingdom		25.38
RSA Northern Ireland Insurance Limited[8]	Law Society House, 90-106 Victoria Street, Belfast, BT1 3GN, Northern Ireland		
Hempton Court Manco Limited[3, 5]	7 Seymour Street, London, W1H 7JW		66.66
Alliance Assurance Company Limited[8]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
National Vulcan Engineering Insurance Group Limited[8]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
Non-Destructive Testers Limited[8]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
R&SA Global Network Limited[8]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		64.00
R&SA Marketing Services Limited[8]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
Royal & Sun Alliance Insurance (Global) Limited[8]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
Royal & Sun Alliance Insurance plc	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom	Class A Ordinary	
Royal & Sun Alliance Insurance plc[4]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom	Class B Ordinary	
Royal & Sun Alliance Pension Trustee Limited[8]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
Royal & Sun Alliance Property Services Limited[8]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
Royal & Sun Alliance Reinsurance Limited	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
Royal Insurance Holdings Limited[1, 8]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
Royal Insurance (U.K.) Limited[8]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
Royal International Insurance Holdings Limited[8]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom	£1.00 Ordinary	
Royal International Insurance Holdings Limited[8]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom	US$1.00 Ordinary	
Roysun Limited[8]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
RSA Accident Repairs Limited[8]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
RSA Finance[8]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
RSA Law Limited[8]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		90.00
Sal Pension Fund Limited[1, 8]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		99.99
Sun Alliance and London Insurance Limited[8]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
Sun Alliance Insurance Overseas Limited[8]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
Sun Alliance Mortgage Company Limited[1, 8]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
Sun Insurance Office Limited[8]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
The London Assurance[8]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
The Globe Insurance Company Limited[8]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
The Marine Insurance Company Limited	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
The Sea Insurance Company Limited[8]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
Westgate Properties Limited[8]	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
United States			
Royal & Sun Alliance Insurance Agency Inc.	Wall Street Plaza, 88 Pine Street, New York, NY 10005, United States		

1. Directly owned by the Parent Company RSA Insurance Group plc.
2. No subsidiary holds a disclosable interest in the shares of RSA Insurance Group plc.
3. Indicates that the holding represents an Investment or is an Associate of the Group.
4. Indicates ownership of non-voting shares.
5. There is no subsidiary where the Group holds less than 50% of the voting rights. There are no entities where the Group holds more than 50% of the voting rights which are not subsidiaries other than Punchbowl and Hempton Court Manco.
6. In relation to Al Ahlia Insurance Company SAOG (listed on the Muscat Securities Market, Oman Stock Exchange) and Al Alamiya for Cooperative Insurance Company (listed on the Tadawul, Saudi Stock Exchange), the percentage held relates to the actual percentage of the share capital held and not the effective percentage held (which is 26.25% and 25.04% respectively).
7. Johnson Inc. holds all of the voting shares in 2029974 Ontario Inc. through the following share classes: Class A Common (0.0016% voting), Class B Common (0.0033% voting), Class V Special (99.9950% voting).
8. Indicates companies within the Group that apply IFRS 9 and disclose relevant information in their own published financial statements in addition to that already included in these consolidated financial statements.

SCHEDULE "C"

RSA INSURANCE GROUP plc

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2021

Table of contents

CONDENSED CONSOLIDATED INCOME STATEMENT
STATUTORY BASIS
For the 3 month period ended 31 March 2021

	Note	**(Unaudited) 3 months 31 March 2021 £m**	(Unaudited) 3 months 31 March 2020 £m
Income			
Gross written premiums		**2,045**	1,996
Less: reinsurance written premiums		**(536)**	(476)
Net written premiums	**5**	**1,509**	1,520
Change in the gross provision for unearned premiums		**(246)**	(183)
Change in provision for unearned reinsurance premiums		**258**	208
Change in provision for net unearned premiums		**12**	25
Net earned premiums		**1,521**	1,545
Net investment return	**6**	**56**	23
Other operating income		**33**	40
Total income		**1,610**	1,608
Expenses			
Gross claims incurred		**(1,022)**	(1,252)
Less: claims recoveries from reinsurers		**158**	199
Net claims		**(864)**	(1,053)
Underwriting and policy acquisition costs		**(474)**	(454)
Unwind of discount		**(8)**	(8)
Other operating expenses		**(10)**	(17)
		(1,356)	(1,532)
Finance costs		**(8)**	(8)
Gain on disposal of business		**3**	-
Profit before tax	**5**	**249**	68
Income tax expense		**(54)**	(17)
Profit for the period		**195**	51
Attributable to:			
Owners of the Parent Company		**193**	46
Non-controlling interests		**2**	5
		195	51
Earnings per share on profit attributable to the ordinary shareholders of the Parent Company			
Basic	**7**	**18.3p**	4.1p
Diluted	**7**	**18.2p**	4.1p

The following explanatory notes form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
STATUTORY BASIS

For the 3 month period ended 31 March 2021

	(Unaudited) 3 months 31 March 2021 £m	(Unaudited) 3 months 31 March 2020 £m
Profit for the period	**195**	51
Items that may be reclassified to the income statement:		
Exchange (losses)/gains net of tax on translation of foreign operations	**(58)**	19
Fair value losses on available for sale financial assets net of tax	**(121)**	(146)
	(179)	(127)
Items that will not be reclassified to the income statement:		
Pension – remeasurement of defined benefit asset/liability net of tax	**(52)**	339
Total other comprehensive (expense)/income for the period	**(231)**	212
Total comprehensive (expense)/income for the period	**(36)**	263
Attributable to:		
Owners of the Parent Company	**(37)**	248
Non-controlling interests	**1**	15
	(36)	263

The following explanatory notes form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
STATUTORY BASIS

For the 3 month period ended 31 March 2021

	(Unaudited)										
	Ordinary share capital £m	Ordinary share premium £m	Preference shares £m	Tier 1 notes £m	Revaluation reserves £m	Capital redemption reserve £m	Foreign currency translation reserve £m	Retained earnings £m	Equity attributable to owners of the Parent Company £m	Non-controlling interests £m	Total equity £m
Balance at 1 January 2021	**1,035**	**1,095**	**125**	**297**	**371**	**389**	**20**	**1,232**	**4,564**	**166**	**4,730**
Total comprehensive income											
Profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**193**	**193**	**2**	**195**
Other comprehensive expense for the period	**-**	**-**	**-**	**-**	**(131)**	**-**	**(47)**	**(52)**	**(230)**	**(1)**	**(231)**
	-	**-**	**-**	**-**	**(131)**	**-**	**(47)**	**141**	**(37)**	**1**	**(36)**
Transactions with owners of the Group											
Contribution and distribution											
Dividends (note 8)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(4)**	**(4)**	**(10)**	**(14)**
Share-based payments	**2**	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**3**	**-**	**3**
	2	**-**	**-**	**-**	**-**	**-**	**-**	**(3)**	**(1)**	**(10)**	**(11)**
Balance at 31 March 2021	**1,037**	**1,095**	**125**	**297**	**240**	**389**	**(27)**	**1,370**	**4,526**	**157**	**4,683**
Balance at 1 January 2020	1,032	1,090	125	297	259	389	(26)	1,003	4,169	173	4,342
Total comprehensive income											
Profit for the period	-	-	-	-	-	-	-	46	46	5	51
Other comprehensive (expense)/income for the period	-	-	-	-	(144)	-	8	338	202	10	212
	-	-	-	-	(144)	-	8	384	248	15	263
Transactions with owners of the Group											
Contribution and distribution											
Dividends (note 8)	-	-	-	-	-	-	-	(3)	(3)	(4)	(7)
Shares issued for cash	-	2	-	-	-	-	-	-	2	-	2
Share-based payments	2	-	-	-	-	-	-	1	3	-	3
	2	2	-	-	-	-	-	(2)	2	(4)	(2)
Balance at 31 March 2020	1,034	1,092	125	297	115	389	(18)	1,385	4,419	184	4,603

The following explanatory notes form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
STATUTORY BASIS
As at 31 March 2021

	Note	(Unaudited) 31 March 2021 £m	(Audited) 31 December 2020 £m
Assets			
Goodwill and other intangible assets	9	855	868
Property and equipment		227	237
Investment property		293	285
Investments in associates		4	5
Financial assets	10	11,620	11,826
Total investments		11,917	12,116
Reinsurers' share of insurance contract liabilities	14	2,612	2,340
Insurance and reinsurance debtors		3,043	2,989
Deferred tax assets	11	196	199
Current tax assets		21	23
Other debtors and other assets		863	840
Other assets		1,080	1,062
Cash and cash equivalents	12	915	1,094
Total assets		20,649	20,706
Equity and liabilities			
Equity			
Equity attributable to owners of the Parent Company		4,526	4,564
Non-controlling interests		157	166
Total equity		4,683	4,730
Liabilities			
Issued debt		751	751
Insurance contract liabilities	14	12,558	12,614
Insurance and reinsurance liabilities		1,123	932
Borrowings		193	132
Deferred tax liabilities	11	87	105
Current tax liabilities		12	40
Provisions		154	172
Other liabilities		1,088	1,230
Provisions and other liabilities		1,341	1,547
Total liabilities		15,966	15,976
Total equity and liabilities		20,649	20,706

The following explanatory notes form an integral part of these condensed consolidated financial statements.

The condensed financial statements were approved on 7 May 2021 by the Board of Directors and are signed on its behalf by:

Charlotte Jones
Group Chief Financial Officer

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
STATUTORY BASIS

For the 3 month period ended 31 March 2021

	Note	**(Unaudited) 3 months 31 March 2021 £m**	(Unaudited) 3 months 31 March 2020 £m
Cash flows from operating activities			
Cash generated from operating activities	**18**	**227**	(82)
Tax paid		**(68)**	(30)
Net cash flows from operating activities		**159**	(112)
Cash flows from investing activities			
Proceeds from sales or maturities of:			
Financial assets		**607**	631
Sale of investments in associates		**3**	-
Purchase of:			
Financial assets		**(965)**	(489)
Property and equipment		**(3)**	(2)
Intangible assets		**(20)**	(29)
Purchase of subsidiaries		**(1)**	-
Net cash flows from investing activities		**(379)**	111
Cash flows from financing activities			
Proceeds from issue of share capital		**-**	2
Coupon payment on Tier 1 notes		**(4)**	(3)
Dividends paid to non-controlling interests		**-**	(4)
Payment of lease liabilities		**(10)**	(11)
Movement in other borrowings		**46**	(70)
Interest paid		**(2)**	(2)
Net cash flows from financing activities		**30**	(88)
Net decrease in cash and cash equivalents		**(190)**	(89)
Cash and cash equivalents at beginning of the period		**1,083**	886
Effect of exchange rate changes on cash and cash equivalents		**(13)**	9
Cash and cash equivalents at end of the period	**12**	**880**	806

The following explanatory notes form an integral part of these condensed 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, Europe, Ireland, Middle East (together UK & International), Scandinavia and Canada.

1. BASIS OF PREPARATION

The annual financial statements were prepared in accordance with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006, and the next annual financial statements will be prepared in accordance with UK-adopted International Accounting Standards. The condensed consolidated financial information in this quarterly financial report has been prepared in accordance with the UK-adopted International Accounting Standard 34 'Interim Financial Reporting' (IAS 34).

On 18 January 2021 the Group's shareholders voted to approve a takeover proposal received from a consortium of two companies, Intact Financial Corporation and Tryg. At the balance sheet date there remained a number of substantive actions including regulatory approvals required for the transaction to proceed, therefore these condensed consolidated financial statements have been prepared on an independent, standalone basis. The impact of this on significant accounting estimates and judgements is discussed in note 2. In addition, the Group do not anticipate any settlement of intercompany loans that may occur as a consequence of the proposed transaction. On 6 May 2021, as detailed in note 17, it was announced that all of the conditions relating to anti-trust and regulatory approvals have now been satisfied or (where capable of waiver) waived and, whilst other conditions remain, the transaction is expected to complete on 1 June 2021.

The condensed consolidated financial statements have been prepared on a going concern basis. In adopting the going concern basis, the Board has reviewed the Group's ongoing commitments for the next twelve months and beyond. The Board's assessment included the review of Group's strategic plans and updated forecasts, capital position, liquidity including credit facilities and investment portfolio, which are based on the Group continuing to operate on a standalone basis and reflects the Group's assessment of the impact of the current challenging economic environment. These assessments include stress and scenario testing and consider significant areas of risk and uncertainty for the Group. Scenarios considered include the impacts and uncertainty as a result of the COVID-19 pandemic and the transition to a post Brexit environment. In making their assessment, the Board have reviewed the impact of the UK Supreme Court decision on business interruption losses on 15 January 2021, including the availability of reinsurance to recover incurred claims. There are no significant changes in business interruption losses to the position reported in the 2020 Annual Report and Accounts based on claims monitored to date and ongoing discussions with reinsurers.

The assessment also considered the impact of the offer to buy RSA should the deal complete or fall away. If the deal completes the board expects restructuring of the Group to occur but considers that the ability of the Group to continue as a going concern will not be adversely affected.

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 twelve months, from both the date of the condensed consolidated statement of financial position and the approval of the condensed consolidated financial statements.

These condensed consolidated financial statements have been prepared by applying the accounting policies used in the 2020 Annual Report and Accounts (see note 5 and Appendix A therein).

2. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Estimates and their underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively. The significant estimates described below, including the underlying estimation techniques and assumptions, remain consistent with those reported in the 2020 Annual Report and Accounts (see note 2 for more information).

- Valuation of insurance contract liabilities: the assumptions used in the estimation of the eventual outcome of the claim events that have occurred but remain unsettled at the end of the reporting period. Refer to note 14 of this interim report and note 39 of the 2020 Annual Report and Accounts for additional information.
- Measurement of defined benefit obligations: key actuarial assumptions. Refer to note 15 of this interim report and note 41 of the 2020 Annual Report and Accounts.
- Recognition of deferred tax assets: availability of future taxable profits against which deductible temporary differences and tax losses carried forward can be utilised. Forecast future taxable profits include the potential impact of COVID-19. Refer to note 11 of this interim report and note 31 of the 2020 Annual Report and Accounts for additional information.
- Valuation of level 3 financial assets and investment properties: use of significant unobservable inputs. The current ongoing economic uncertainty means that asset valuation techniques that rely on unobservable inputs have a greater degree of estimation uncertainty. Refer to note 10 of this interim report for additional information.
- Measurement and impairment of goodwill and intangible assets: key assumptions applied in the valuation of the recoverable amount and the estimation of useful economic life. The value in use calculations are based on management's latest operational plans, which include the potential impact of COVID-19. Refer to note 9 of this interim report and note 23 of the 2020 Annual Report and Accounts for additional information.

Whilst the uncertainty in forecast future taxable profits arising from the proposed takeover of RSA remains, no circumstances have arisen that would result in a change in the assessments of the recoverability of deferred tax assets or the valuation of goodwill and intangible assets from those presented in the 2020 Annual Report and Accounts. The sensitivities and downside scenarios accompanying these assessments also remain pertinent. The valuations remain based on operational plans which have been prepared on the assumption that the Group continues to operate on an independent, standalone basis. Updating operational plans and projected cash flows to reflect potential future decisions of new management after the transaction completes could impact the valuation of certain assets including intangible assets and deferred tax assets.

The areas where management has applied judgement are as follows:

- Classification of financial assets in fair value hierarchy: management apply judgement when deciding to classify financial instruments for which immediate prices are available as being level 1 in the fair value hierarchy and financial assets for which observable prices are also available as level 2 on the basis of a lower level of activity in the market from which those prices are quoted. Refer to note 10 for additional information.
- Impairment of financial assets: determining if there is objective evidence of impairment requires judgement and, in the 3 months to 31 March 2021, **£13m** of impairments have been recognised (3 months to 31 March 2020: £10m) (note 6). The value of unrealised losses in the revaluation reserve at 31 March 2021 is **£94m** (31 December 2020: £84m).

3. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

Transition from EU-adopted IAS to UK-adopted IAS

Following the end of the Brexit Transition Period, SI 2019/685 brought the International Accounting Standards (IAS) already endorsed in the EU into UK law as 'UK-adopted international accounting standards'. The Group has applied UK-adopted IAS from 1 January 2021. As there are no changes when applying UK-adopted IAS, there has not been an impact on the Group with the exception of the following narrow scope amendments:

Extension of the Temporary Exemption from Applying IFRS 9

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

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

Other standards

Other amendments to UK-adopted IAS became mandatory as of 1 January 2021. The Group has evaluated these changes, none of which have had a significant impact on the condensed consolidated financial statements.

RISK MANAGEMENT

4. RISK MANAGEMENT

The principal risks and uncertainties of the Group and the management of these risks have not materially changed since the year ended 31 December 2020.

Details of the principal risks and uncertainties of the Group and the management of these risks were included in the 2020 Annual Report and Accounts; Risk Management information in note 6 on pages 114 to 120 and the estimation techniques and uncertainties in the specific disclosures to which they relate.

NOTES TO THE CONDENSED CONSOLIDATED INCOME STATEMENT, CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AND DIVIDENDS

5. OPERATING SEGMENTS

The Group's primary operating segments comprise Scandinavia, Canada, UK & International and Central Functions, which is consistent with how the Group is managed and the segments disclosed in the 2020 Annual Report and Accounts. 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); and
- Business operating result.

Net written premiums are the key measure of revenue used in internal reporting.

Underwriting result, COR and business operating result are Alternative Performance Measures (APMs) and the key internal measures of profitability of the operating segments. The COR reflects the ratio of claims costs and expenses (including commission) to earned premiums, expressed as a percentage.

Transfers or transactions between segments are entered into under normal commercial terms and conditions that would also be available to unrelated third parties.

Segment revenue and results

Period ended 31 March 2021

	Scandinavia	Canada	UK & International	Central Functions	Total Group
	£m	£m	£m	£m	£m
Net written premiums	**648**	**275**	**574**	**12**	**1,509**
Underwriting result	**98**	**92**	**28**	**(5)**	**213**
Investment result	**8**	**12**	**26**	**-**	**46**
Central costs and other activities	**-**	**-**	**-**	**(2)**	**(2)**
Business operating result (management basis)	**106**	**104**	**54**	**(7)**	**257**
Realised gains					**5**
Unrealised losses, impairments and foreign exchange					**(4)**
Interest costs					**(8)**
Amortisation of intangible assets					**(1)**
Transaction costs[1]					**(3)**
Gain on disposal of business					**3**
Profit before tax					**249**
Tax on operations					**(54)**
Profit after tax					**195**
Combined operating ratio (%)	**78.0%**	**77.2%**	**95.8%**		**86.0%**

[1] Transaction costs relate to central costs incurred in relation to the proposed takeover of RSA.

Period ended 31 March 2020

	Scandinavia	Canada	UK & International	Central Functions	Total Group
	£m	£m	£m	£m	£m
Net written premiums	610	303	571	36	1,520
Underwriting result	66	15	6	(16)	71
Investment result	10	16	30	-	56
Central costs and other activities	-	-	-	(2)	(2)
Business operating result (management basis)	76	31	36	(18)	125
Realised gains					2
Unrealised losses, impairments and foreign exchange					(40)
Interest costs					(8)
Amortisation of intangible assets					(3)
Pension net interest and administration costs					1
Reorganisation costs					(9)
Profit before tax					68
Tax on operations					(17)
Profit after tax					51
Combined operating ratio (%)	84.0%	96.5%	99.2%		95.4%

6. NET INVESTMENT RETURN

A summary of the net investment return in the income statement is given below:

	Investment income		**Net realised gains**		**Net unrealised (losses)/gains**		**Impairments**		**Total investment return**	
	31 March 2021	31 March 2020	**31 March 2021**	31 March 2020	**31 March 2021**	31 March 2020	**31 March 2021**	31 March 2020	**31 March 2021**	31 March 2020
	£m	£m	**£m**	£m	**£m**	£m	**£m**	£m	**£m**	£m
Investment property	**4**	5	**-**	-	**(3)**	(8)	**-**	-	**1**	(3)
Equity securities										
Available for sale	**5**	7	**3**	2	**-**	-	**(8)**	(10)	**-**	(1)
Debt securities										
Available for sale	**45**	50	**2**	-	**-**	-	**(5)**	-	**42**	50
At FVTPL	**-**	-	**-**	-	**(2)**	1	**-**	-	**(2)**	1
Other loans and receivables										
Loans secured by mortgages	**1**	1	**-**	-	**-**	-	**-**	-	**1**	1
Other loans	**3**	2	**-**	-	**-**	-	**-**	-	**3**	2
Deposits, cash and cash equivalents	**-**	1	**-**	-	**-**	-	**-**	-	**-**	1
Derivatives	**-**	1	**-**	-	**11**	(29)	**-**	-	**11**	(28)
Total net investment return	**58**	67	**5**	2	**6**	(36)	**(13)**	(10)	**56**	23

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

	Net unrealised gains/(losses)		Net realised (gains) transferred to income statement		Impairments transferred to income statement		Net movement recognised in other comprehensive income	
	31 March 2021	31 March 2020	**31 March 2021**	31 March 2020	**31 March 2021**	31 March 2020	**31 March 2021**	31 March 2020
	£m	£m	**£m**	£m	**£m**	£m	**£m**	£m
Equity securities	**28**	(103)	**(3)**	(2)	**8**	10	**33**	(95)
Debt securities	**(207)**	(69)	**(2)**	-	**5**	-	**(204)**	(69)
Total	**(179)**	(172)	**(5)**	(2)	**13**	10	**(171)**	(164)

7. EARNINGS PER SHARE

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 period.

The number of shares used in the calculation on a basic and diluted basis were 1,035,797,971 (31 March 2020: 1,032,567,926) and 1,040,643,463 (31 March 2020: 1,034,232,784) respectively (excluding ordinary shares purchased by various employee share trusts and held as own shares).

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 employee share trusts and held as own shares.

Diluted earnings per share are calculated by dividing the profit attributable to the ordinary shareholders of the Parent Company by the diluted weighted average number of ordinary shares in issue during the period, excluding ordinary shares purchased by various employee share trusts and held as own shares.

8. DIVIDENDS

	31 March 2021	31 March 2020
	£m	£m
Tier 1 notes coupon payment	**4**	3
	4	3

NOTES TO THE CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

9. GOODWILL AND INTANGIBLE ASSETS

	31 March 2021 £m	31 December 2020 £m
Goodwill	**322**	330
Externally acquired software	**3**	3
Internally generated software	**497**	499
Customer related intangibles	**33**	36
Total goodwill and other intangible assets	**855**	868

Customer related intangibles includes customer lists and renewal rights.

Impairment assessments

A review for indications of impairment since the end of the last annual reporting period has been performed.

The appropriateness of key assumptions and operational plans underpinning the 2020 year end value in use calculations have been reviewed and no material adverse changes have been identified. For more information on the headroom for each Cash Generating Unit (CGU) and sensitivities relating to the key assumptions refer to note 23 of the 2020 Annual Report and Accounts.

Following this review, no impairments were required as at 31 March 2021 with recoverable values sufficiently exceeding carrying values.

10. FINANCIAL ASSETS AND FAIR VALUE MEASUREMENTS

Financial assets

	31 March 2021 £m	31 December 2020 £m
Equity securities	**678**	673
Debt securities	**10,512**	10,724
Financial assets measured at fair value	**11,190**	11,397
Loans and receivables	**430**	429
Total financial assets	**11,620**	11,826

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.

The fair value at 31 March 2021 and change during the period of financial assets that are held to collect cash flows on specified dates that are solely for payment of principal and interest (SPPI) and are not held for trading as defined under IFRS 9, nor are managed or evaluated on a fair value basis, is set out below, together with the same information for other financial assets:

As at 31 March 2021

	SPPI financial assets	**Other financial assets**	**Total**
	£m	**£m**	**£m**
Available for sale equity securities	**-**	**678**	**678**
Available for sale debt securities	**10,037**	**465**	**10,502**
Debt securities at FVTPL	**-**	**10**	**10**
Loans and receivables	**430**	**-**	**430**
Derivative assets held for trading	**-**	**60**	**60**
Total	**10,467**	**1,213**	**11,680**

As at 31 December 2020

	SPPI financial assets	Other financial assets	Total
	£m	£m	£m
Available for sale equity securities	-	673	673
Available for sale debt securities	10,302	410	10,712
Debt securities at FVTPL	-	12	12
Loans and receivables	429	-	429
Derivative assets held for trading	-	85	85
Total	10,731	1,180	11,911

The fair value gains/losses of SPPI financial assets and other financial assets during the three months to 31 March 2021 are **£198m losses** (12 months to 31 December 2020: £144m gains) and **£30m gains** (12 months to 31 December 2020: £80m losses) respectively.

When IFRS 9 is adopted by the Group (currently expected to be 2023) an expected credit loss provision will be recognised replacing the incurred credit loss provision under IAS 39, the impact of which will be determined by the financial instruments held at that time.

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 condensed consolidated financial statements are indicated in Appendix B of the 2020 Annual Report and Accounts.

Fair value measurements recognised in the statement of financial position

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

	Fair value hierarchy 31 March 2021			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Group occupied property - land and buildings	-	-	18	18
Investment property	-	-	293	293
Available for sale financial assets:				
Equity securities	182	205	291	678
Debt securities	2,424	7,563	515	10,502
Financial assets at fair value through the income statement:				
Debt securities	-	-	10	10
	2,606	7,768	1,127	11,501
Derivative assets:				
At fair value through the income statement	-	60	-	60
Designated as hedging instruments	-	61	-	61
Total assets measured at fair value	2,606	7,889	1,127	11,622
Derivative liabilities:				
At fair value through the income statement	-	66	-	66
Designated as hedging instruments	-	28	-	28
Total liabilities measured at fair value	-	94	-	94
Issued debt	-	820	-	820
Total liabilities not measured at fair value	-	820	-	820

	Fair value hierarchy 31 December 2020			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Group occupied property - land and buildings	-	-	19	19
Investment property	-	-	285	285
Available for sale financial assets:				
Equity securities	185	179	309	673
Debt securities	2,416	7,874	422	10,712
Financial assets at fair value through the income statement:				
Debt securities	-	-	12	12
	2,601	8,053	1,047	11,701
Derivative assets:				
At fair value through the income statement	-	85	-	85
Designated as hedging instruments	-	40	-	40
Total assets measured at fair value	2,601	8,178	1,047	11,826
Derivative liabilities:				
At fair value through the income statement	-	97	-	97
Designated as hedging instruments	-	48	-	48
Total liabilities measured at fair value	-	145	-	145
Issued debt	-	837	-	837
Total liabilities not measured at fair value	-	837	-	837

Estimation of the fair value of assets and liabilities

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 Group occupied properties and investment properties are based on the comparative method of valuation with reference to sales of other comparable buildings. Fair value is then determined based on the locational qualities and physical building characteristics (principally condition, size, specification and layout) together with factoring in the occupational lease terms and tenant covenant strength as appropriate.

Derivative financial instruments

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

Issued debt

The fair value measurement of the Group's issued debt instruments, with the exception of the subordinated guaranteed US$ bonds, are based on pricing obtained from a range of financial intermediaries who base their valuations on recent transactions of the Group's issued debt instruments and other observable market inputs such as applicable risk free rate and appropriate credit risk spreads.

The fair value measurement of the subordinated guaranteed US$ bonds is also obtained from an indicative valuation based on the applicable risk-free rate and appropriate credit risk spread.

Fair value hierarchy

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

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

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

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

In certain circumstances, the Group does not receive pricing information from an external provider for its financial investments. In such circumstances the Group calculates fair value, which may use input parameters that are not based on observable market data. Unobservable inputs are based on assumptions that are neither supported by prices from observable current market transactions for the same instrument nor based on available market data. In these cases, judgement is required to establish fair values. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

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

Investment property

Investment property valuations are carried out in accordance with the latest edition of the Valuation Standards published by the Royal Institution of Chartered Surveyors (RICS) and are undertaken by independent RICS registered valuers. Valuations are based on the comparative method with reference to sales of other comparable buildings and take into account the nature, location and condition of the specific property together with factoring in the occupational lease terms and tenant covenant strength as appropriate. The valuations also include an income approach using discounted future cash flows, which uses unobservable inputs, such as discount rates, rental values, rental growth rates, vacancy rates and void or rent free periods expected after the end of each lease. The valuations at 31 March 2021 reflects equivalent yield ranges between 4.15% and 15.64% (31 December 2020: 4.15% and 15.41%).

Private fund structures

Loan funds are principally valued at the proportion of the Group's holding of the Net Asset Value (NAV) reported by the investment vehicle. Several procedures are employed to assess the reasonableness of the NAV reported by the fund, including obtaining and reviewing periodic and audited financial statements and estimating fair value based on a discounted cash flow model that adds spreads for credit and illiquidity to a risk-free discount rate. Discount rates employed in the model at 31 March 2021 range from 0.2% to 6.2% (31 December 2020: 0.2% to 8.7%). If necessary, the Group will adjust the fund's reported NAV to the discounted cash flow valuation where this more appropriately represents the fair value of its interest in the investment.

Given the current ongoing economic uncertainty, the asset valuation techniques described above that rely on unobservable inputs are less certain, and additional sensitivity has been applied to the valuation of level 3 assets in this note on page 18.

A reconciliation of Level 3 fair value measurements of financial assets is shown in the table below. There are no Level 3 financial liabilities.

	Available for sale investments		Debt securities at fair value through the income statement	Investment property	Group occupied property	Total
	Equity securities	Debt securities				
	£m	£m	£m	£m	£m	£m
Level 3 financial assets at 1 January 2020	279	375	15	300	19	988
Total gains/(losses) recognised in:						
Income statement	-	7	(3)	(8)	-	(4)
Other comprehensive income	(5)	1	-	-	-	(4)
Purchases	49	153	-	19	-	221
Disposals	(27)	(113)	-	(29)	-	(169)
Exchange adjustment	13	(1)	-	-	-	12
Transfer from right-of-use assets	-	-	-	3	-	3
Level 3 financial assets at 1 January 2021	**309**	**422**	**12**	**285**	**19**	**1,047**
Total gains/(losses) recognised in:						
Income statement	**2**	**(5)**	**(2)**	**(3)**	**-**	**(8)**
Other comprehensive income	**(1)**	**(5)**	**-**	**-**	**-**	**(6)**
Purchases	**14**	**107**	**-**	**11**	**-**	**132**
Disposals	**(19)**	**(2)**	**-**	**-**	**(1)**	**(22)**
Exchange adjustment	**(14)**	**(2)**	**-**	**-**	**-**	**(16)**
Level 3 financial assets at 31 March 2021	**291**	**515**	**10**	**293**	**18**	**1,127**

Unrealised losses of **£2m** (2020: £3m losses) attributable to FVTPL debt securities recognised in the condensed consolidated income statement relate to those still held at the end of the period.

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			
		31 March 2021		31 December 2020	
Available for sale financial assets and property	Main assumptions	Current fair value	Decrease in fair value	Current fair value	Decrease in fair value
		£m	£m	£m	£m
Group occupied property - land and buildings[1]	Property valuation	**18**	**(2)**	19	(2)
Investment properties[1]	Cash flows; discount rate	**293**	**(26)**	285	(25)
Level 3 available for sale financial assets:					
Equity securities[2]	Cash flows; discount rate	**291**	**(4)**	309	(4)
Debt securities[2]	Cash flows; discount rate	**515**	**(10)**	422	(7)
Total		**1,117**	**(42)**	1,035	(38)

[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 50bps in the discount rate used in the valuation (31 December 2020: 50bps). This has been considered in light of the current level of uncertainty and a change of 50bps is considered a reasonably possible scenario.

[2] The Group's investments in financial assets classified at level 3 in the hierarchy are primarily investments in various private fund structures investing in debt instruments where the valuation includes estimates of the credit spreads on the underlying holdings. The estimates of the credit spread are based upon market observable credit spreads for what are considered to be assets with similar credit risk. Reasonably possible alternative valuations have been determined using an increase of 50bps in the credit spread used in the valuation (31 December 2020: 50bps). This has been considered in light of the current level of uncertainty and a change of 50bps is considered a reasonably possible scenario.

11. DEFERRED TAX

	Asset		Liability	
	31 March 2021	31 December 2020	**31 March 2021**	31 December 2020
	£m	£m	**£m**	£m
Deferred tax position	**196**	199	**87**	105

Of the **£196m** (31 December 2020: £199m) deferred tax asset recognised by the Group, **£180m** (31 December 2020: £181m) relates to the UK.

The basis for recognition of the UK deferred tax asset at 31 March 2021 is consistent with that followed at 31 December 2020. The evidence for the future taxable profits is a seven-year forecast based on the three year operational plans prepared by the relevant businesses and a further four years of extrapolation.

The value of the deferred tax asset is sensitive to assumptions in respect of forecast profits. The impact of downward movements in key assumptions on the value of the UK deferred tax asset is summarised below. The relationship between the UK deferred tax asset and the sensitivities below is not always linear. Therefore, the cumulative impact on the deferred tax asset of combined sensitivities or longer extrapolations based on the table below will be indicative only.

	31 March 2021	31 December 2020
	£m	£m
1% increase in combined operating ratio across all 7 years	**(16)**	(16)
1 year reduction in the forecast modelling period	**(19)**	(18)
50 basis points decrease in bond yields	**(6)**	(6)
1% decrease in annual premium growth[1]	**(1)**	(1)

[1] In respect of the extrapolated years four to seven only.

As noted in the 2020 Annual Report and Accounts, the deferred tax asset has been calculated on the basis that RSA continues as an independent group. The takeover of RSA poses a material risk to the UK deferred tax assets and any impact of the acquisition will be reflected once the transaction is complete.

A UK tax rate rise has been announced that will increase the rate from 19% to 25%, effective April 2023. As the rate change has not been substantively enacted it is not reflected in the valuation of the deferred tax asset at 31 March 2021.

12. CASH AND CASH EQUIVALENTS

	31 March 2021	31 December 2020	31 March 2020
	£m	£m	£m
Cash and cash equivalents and bank overdrafts (as reported within the condensed consolidated statement of cash flows)	**880**	1,083	806
Add: Bank overdrafts reported in Borrowings	**35**	11	9
Total cash and cash equivalents (as reported within the condensed consolidated statement of financial position)	**915**	1,094	815

Cash and cash equivalents of **£28m** (31 December 2020: £27m, 31 March 2020: £29m) held in Canada are restricted for operational RSA use.

13. SHARE CAPITAL

The issued share capital at 31 March 2021 consists of 1,037,223,181 ordinary shares of £1.00 each and 125,000,000 of preference shares of £1.00 each (31 December 2020: 1,035,267,610 ordinary shares of £1.00 each and 125,000,000 preference shares of £1.00 each).

The issued share capital of the Parent Company is fully paid.

14. INSURANCE CONTRACT LIABILITIES

Estimation techniques and uncertainties

Details of the Group accounting policies in respect of insurance contract liabilities can be found in note 39 on page 150 of the 2020 Annual Report and Accounts.

The 2020 year-end Annual Report and Accounts included details on all the significant accounting judgements made in the valuation of insurance contract liabilities, with particular focus on the increased level of estimation uncertainty due to the impact of the COVID-19 pandemic. The notes explained how various items such as direct COVID-19 claims, reinsurance, the legal and claims environments, changing frequency and severity, and distorted claims development patterns all contributed to the heightened uncertainty at that time.

The heightened uncertainty arising from COVID-19 persists and is not expected to subside in the short-term future. Whilst claims experience and development trends have continued to mature during Q1, the Group continues to monitor all key assumptions and sources of estimation uncertainty. Key assumptions and estimation techniques are reviewed regularly. The Q1 2021 review has not identified any significant changes required to key assumptions, significant judgements and estimates applied in the last annual reporting period. Therefore, the relevant information, including the sensitivities provided in note 39 in the 2020 Annual Report and Accounts, still apply for Q1 2021.

Gross insurance contract liabilities and the reinsurers' share of insurance contract liabilities

The gross insurance contract liabilities and the reinsurers' (RI) share of insurance contract liabilities presented in the condensed consolidated statement of financial position comprise the following:

As at 31 March 2021

	Gross £m	**RI £m**	**Net £m**
Provision for unearned premiums	**3,421**	**(972)**	**2,449**
Provision for losses and loss adjustment expenses	**9,137**	**(1,640)**	**7,497**
Total insurance contract liabilities	**12,558**	**(2,612)**	**9,946**

As at 31 December 2020

	Gross £m	RI £m	Net £m
Provision for unearned premiums	3,235	(716)	2,519
Provision for losses and loss adjustment expenses	9,379	(1,624)	7,755
Total insurance contract liabilities	12,614	(2,340)	10,274

15. RETIREMENT BENEFIT OBLIGATIONS

Defined benefit pension schemes and other post-retirement benefits

The amounts recognised in the condensed consolidated statement of financial position are as follows:

	31 March 2021			31 December 2020		
	UK	**Other**	**Total**	UK	Other	Total
	£m	**£m**	**£m**	£m	£m	£m
Present value of funded obligations	**(8,118)**	**(416)**	**(8,534)**	(8,844)	(452)	(9,296)
Present value of unfunded obligations	**(7)**	**(92)**	**(99)**	(6)	(99)	(105)
Fair value of plan assets	**8,667**	**471**	**9,138**	9,355	500	9,855
Other net surplus remeasurements	**(192)**	**-**	**(192)**	(179)	-	(179)
Net IAS 19 surplus/(deficits) in the schemes	**350**	**(37)**	**313**	326	(51)	275
Defined benefit pension schemes	**350**	**11**	**361**	326	-	326
Other post-retirement benefits	**-**	**(48)**	**(48)**	-	(51)	(51)
Schemes in surplus	**357**	**51**	**408**	333	46	379
Schemes in deficit	**(7)**	**(88)**	**(95)**	(7)	(97)	(104)

Movement during the period:

	31 March 2021			
	Present value of obligations	**Fair value of plan assets**	**Other net surplus remeasurements**	**Net surplus**
	£m	**£m**	**£m**	**£m**
At 1 January	**(9,401)**	**9,855**	**(179)**	**275**
Current service costs	**(1)**	**-**	**-**	**(1)**
Termination payments	**(1)**	**-**	**-**	**(1)**
Interest (expense)/income	**(34)**	**35**	**-**	**1**
Administration costs	**-**	**(1)**	**-**	**(1)**
Total (expenses)/income recognised in income statement	**(36)**	**34**	**-**	**(2)**
Return on scheme assets less amounts in interest income	**-**	**(738)**	**-**	**(738)**
Effect of changes in financial assumptions	**709**	**-**	**-**	**709**
Investment expenses	**-**	**(3)**	**-**	**(3)**
Other net surplus remeasurements	**-**	**-**	**(13)**	**(13)**
Remeasurements recognised in other comprehensive income	**709**	**(741)**	**(13)**	**(45)**
Employer contribution	**-**	**86**	**-**	**86**
Benefit payments	**93**	**(93)**	**-**	**-**
Exchange adjustment	**2**	**(3)**	**-**	**(1)**
At 31 March	**(8,633)**	**9,138**	**(192)**	**313**
Deferred tax				**11**
IAS 19 net surplus net of deferred tax				**324**

	31 December 2020			
	Present value of obligations	Fair value of plan assets	Other net surplus remeasurements	Net surplus
	£m	£m	£m	£m
At 1 January	(8,681)	9,016	(141)	194
Current service costs	(6)	-	-	(6)
Termination payments	(1)	-	-	(1)
Interest (expense)/income	(178)	186	-	8
Administration costs	-	(7)	-	(7)
Gains on settlements/curtailments	1	-	-	1
Total (expenses)/income recognised in income statement	(184)	179	-	(5)
Return on scheme assets less amounts in interest income	-	950	-	950
Effect of changes in financial assumptions	(1,000)	-	-	(1,000)
Effect of changes in demographic assumptions	18	-	-	18
Experience gains	72	-	-	72
Investment expenses	-	(10)	-	(10)
Other net surplus remeasurements	-	-	(38)	(38)
Remeasurements recognised in other comprehensive income	(910)	940	(38)	(8)
Employer contribution	-	95	-	95
Benefit payments	376	(376)	-	-
Exchange adjustment	(2)	1	-	(1)
At 31 December	(9,401)	9,855	(179)	275
Deferred tax				15
IAS 19 net surplus net of deferred tax				290

16. RELATED PARTY TRANSACTIONS

During the three months to 31 March 2021, there have been no related party transactions that have materially affected the financial position or the results for the period. There have also been no changes in the nature of the related party transactions as disclosed in note 16 on page 127 of the 2020 Annual Report and Accounts.

17. EVENTS AFTER THE REPORTING PERIOD

On 6 May 2021, it was announced that with respect to the proposed takeover of RSA, all of the conditions relating to anti-trust and regulatory approvals have now been satisfied or (where capable of waiver) waived and, whilst other conditions remain, the transaction is expected to complete on 1 June 2021.

NOTES TO THE CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

18. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

The reconciliation of net profit before tax to cash flows from operating activities is as follows:

	31 March 2021	31 March 2020
	£m	£m
Cash flows from operating activities		
Profit for the year before tax	**249**	68
Adjustments for non-cash movements in net profit for the year		
Amortisation of available for sale assets	**12**	13
Depreciation of tangible assets	**11**	15
Amortisation and impairment of intangible assets	**20**	20
Fair value losses on financial assets	**5**	20
Impairment charge on available for sale financial assets	**13**	10
Gain on disposal of business	**(3)**	-
Other non-cash movements	**12**	(14)
Changes in operating assets/liabilities		
Loss and loss adjustment expenses	**(55)**	(49)
Unearned premiums	**(16)**	(20)
Movement in working capital	**52**	(71)
Reclassification of investment income and interest paid	**(69)**	(75)
Pension deficit funding	**(75)**	(75)
Cash generated from investment of insurance assets		
Dividend income	**6**	7
Interest and other investment income	**65**	69
Cash flows from operating activities	**227**	(82)

APPENDIX A: EXCHANGE RATES

Local currency/£	**3 months 31 March 2021**		3 months 31 March 2020		12 months 31 December 2020	
	Average	**Closing**	Average	Closing	Average	Closing
Canadian Dollar	1.75	1.73	1.72	1.77	1.72	1.74
Danish Krone	8.50	8.73	8.69	8.44	8.39	8.31
Swedish Krona	11.56	12.03	12.40	12.27	11.81	11.22
Euro	1.14	1.17	1.16	1.13	1.13	1.12

SCHEDULE “D”

RISK FACTORS

Unless otherwise stated or the context otherwise requires, all references to “RSA” under this heading “Risk Factors” mean RSA’s Canadian, U.K. and International entities and RSA’s Danish business.

The risks and uncertainties described below are not the only ones RSA may face. Additional risks and uncertainties that IFC is unaware of, or that IFC currently deems to be immaterial, may also become important factors that affect RSA. If any of these risks actually occur, RSA’s business, financial condition or results of operations could be materially adversely affected, with the result that the trading price of IFC’s securities could decline and investors could lose all or part of their investment.

Integration of RSA

To effectively integrate RSA into IFC’s current operations, IFC is establishing operational, administrative, finance, management systems and controls and marketing functions relating to such operations. These efforts require substantial attention from IFC’s management team. This diversion of management attention, as well as any other difficulties which IFC may encounter in completing the transition and integration process, could have an adverse impact on IFC. There can be no assurance that IFC will be successful in integrating RSA’s operations or that the expected benefits thereof will be realized.

Failure to Realize the Anticipated Benefits of the Acquisition

There is a risk that some or all of the expected benefits of the Acquisition may fail to materialize, or may not occur within the time periods anticipated by IFC. The realization of such benefits may be affected by a number of factors including those disclosed in this Report. In addition, IFC may be unable to retain RSA’s customers or employees following the Acquisition.

Co-investment Risk

IFC and Tryg are co-owners of RSA’s Danish business. This co-investment involves risks that could adversely affect IFC, including: (i) IFC does not have full control of RSA’s Danish operations; (ii) IFC may experience impasses or disputes with Tryg on certain decisions which could require IFC to expend additional resources to resolve such impasses or disputes, including litigation or arbitration; (iii) Tryg may become insolvent or bankrupt or fail to fulfil its obligations as a partner; and (iv) Tryg may have business or economic interests that are inconsistent with IFC’s and may take actions contrary to IFC’s interests. In addition, this co-investment could present unforeseen integration obstacles or costs, may not enhance IFC’s business and may involve risks that could adversely affect IFC, including the investment of significant amounts of management time that may be diverted from other operations in order to maintain such co-investment. Any of the foregoing risks and uncertainties could have a material adverse effect on IFC’s business, financial condition, results of operations and prospects.

Closing of the DK Sale

The closing of the DK Sale is subject to receipt of required regulatory approvals, the completion of Alm. Brand’s financing and the satisfaction of certain closing conditions. As such, there is no assurance that, the DK Sale will be completed in a timely manner or at all.

Historical Performance May not be Indicative of Future Performance

Historical performance of the business of RSA may not be indicative of success in future periods. The future performance of the business of RSA may be influenced by, among other factors, economic downturns, regulatory changes and other factors beyond IFC’s control. As a result of any one or more of these factors, the operations and financial performance of RSA may be negatively affected, which may adversely affect IFC’s financial results.

RSA's Defined Benefit Pension Schemes

RSA sponsors a number of U.K. defined benefit pension schemes that, from time to time, may have insufficient assets to cover their liabilities and those liabilities may increase as a result of various factors, a number of which are outside the control of IFC and RSA. Notwithstanding the completion of the Acquisition, RSA remains primarily liable for funding these schemes, and the cost of so doing could reduce RSA's assumed value to IFC and IFC may be required to bear significant increases in future funding requirements, which could have a material adverse effect on IFC's business, results of operations and financial condition.

Under the current regulatory regime for U.K. defined benefit pensions, the strength of the employer covenant supporting the pension schemes is a key consideration for the pension trustees and if any changes to RSA group's business (including the Acquisition) have a materially detrimental impact on the employer covenant, members of the RSA and IFC groups may be required to provide suitable mitigation for such detriment and/or face increased funding requirements. Such increased costs and/or liabilities could be imposed directly on RSA or indirectly through the U.K. Pensions Regulator's statutory powers on any member of the RSA or IFC groups.

Regulatory Capital Regime Applying to RSA is Subject to Change

On October 19, 2020, the U.K. Treasury issued a "call for evidence" seeking industry views on how to tailor the Solvency II regime to better support the unique features of the U.K. insurance sector. There remains a risk that future changes to the U.K. regulatory regime could give rise to greater capital requirements than are currently the case, or other more onerous reporting or compliance obligations. The current HM Treasury consultation on the U.K. Solvency II regime remains ongoing and the ultimate results thereof are unknown and could adversely impact RSA once concluded.

RSA's Regulated Businesses Are Subject to Extensive Regulatory Supervision

RSA is subject to extensive laws and regulations that are administered and enforced by a number of different governmental authorities and non-governmental agencies. Insurance regulation in the U.K. and the regulations that apply to RSA's European subsidiaries are largely based on the requirements of EU Directives as transposed into U.K. law. In the U.K., RSA's business is subject to regulation by both the Prudential Regulation Authority (the "**PRA**") and the Financial Conduct Authority (the "**FCA**") which have broad powers including the authority to grant, vary the terms of or cancel a regulated firm's authorisation, to investigate marketing and sales practices, to make product intervention rules and require the maintenance of adequate financial resources. The PRA and the FCA have the power to undertake a range of investigative disciplinary or enforcement actions, including public censure, restitution, fines or sanctions and to require firms to pay compensation as a result of such actions. As with other regulated firms, RSA is subject to risk should the PRA or the FCA bring an action with respect to compliance with applicable regulations.

In May 2021, the FCA published its revised rules on certain general insurance pricing practices. The changes are designed to tackle market practices that can result in the progressive charging of existing customers higher premiums than new customers and discourage customers from switching insurers. The rules will also require firms to provide accessible and easy options to enable customers to cancel auto-renewing policies. The new rules that relate to systems and controls and product governance will come into effect in September 2021 and the new rules relating to pricing and auto-renewing will come into effect on January 1, 2022, but with a transitional period. There remains uncertainty on how this could impact customer premiums and switching of customers into or out of RSA insurance products which, taken as a whole, may adversely affect RSA's financial prospects.

Catastrophe Events Risk

In addition to the catastrophic events risks IFC previously faced in Canada, ownership of RSA's Canadian business increases IFC's exposure to natural catastrophe risk, notably earthquake risk. In addition to catastrophic events risks in Canada, the RSA acquisition increases IFC's exposure to catastrophe events in the U.S. and Caribbean (such as hurricanes and earthquakes) and Europe (such as windstorms and floods).

Exposure to COVID-19 Pandemic Claims

RSA is exposed to claims relating to the COVID-19 pandemic, including business interruption insurance policies previously written by RSA's subsidiaries. RSA's anticipated exposure has been modelled on assumptions that may not be accurate. The interpretation of policy wordings has yet to be tested or finally resolved in the context of the COVID-19 pandemic, and the measures taken in response, and adverse judgments may increase RSA's exposure significantly. Steps have been taken to exclude exposure to COVID-19 and other pandemics from new and renewing policies, but such exclusions may not be deemed to exclude all losses arising from further pandemics and the responses to them, and the exclusions will not apply to existing policies prior to renewal. RSA's exposure is covered in part under general reinsurance programmes and the application of common reinsurance policy wordings remains uncertain in the context of the COVID-19 pandemic and may provide more limited cover than expected.

The ongoing COVID-19 pandemic may also result in increased operational risk, including through regulatory changes, enforced remote working, government "stay-at-home" orders, staff absences, and market volatility. As a result, RSA's business results, operations, corporate and financial condition could be adversely affected for a substantial period of time.