RSA Insurance Group plc

Annual Report and Accounts 2020

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

Today, RSA is a leading international general insurer, with our business rooted in regional franchises, operating through our Scandinavia, Canada and UK & International[1] regions.

We take pride in providing excellent customer service as well as striving to achieve high performance levels that benefit our shareholders and employees. We are a focussed, agile and resilient business.

2020 was another excellent year for RSA overall. Despite the financial and operational impacts of Covid-19, the business remained resilient throughout, resulting in another year of strong profits for the Group.

In the second half of the year, RSA received a cash offer by a consortium of Canadian insurer Intact and Danish provider Tryg, to be implemented by a court-sanctioned Scheme of Arrangement which was approved by shareholders on 18 January 2021.

As this may be RSA's last annual report, it is worth reflecting on some of our major achievements over the past 300 years. From humble beginnings under the stewardship of Charles Povey in 1706, the business has grown significantly to be an ever-present member of the FTSE 100 index, providing insurance needs for generations of families and businesses across the world. The RSA story is not over, however, and under new ownership the business can continue to go from strength to strength for generations to come.

1. International includes the European, Irish and Middle East businesses.
2. Full-time equivalent.
3. Excluding UK&I exit portfolios. see pages 181 to 190 for further details.
4. Total Group. Statutory earnings per share 30.9p.

Financial and operational highlights

£6.2bn[3]

Net written premiums

-3.0%

91.1%[3]

Combined operating ratio

91.9%[4] -2.7pts

51.2p[3]

Underlying earnings per share

47.0p[4] +7.6p

11,840

Number of colleagues[2]

-4.3%

£364m

Profit after tax

-5.0%

£751m[3]

Business operating result

£703m[4] +17.8%

Further information on our key performance indicators is set out on **pages 16 to 17**

Alternative Performance Measures

RSA uses Alternative Performance Measures (APMs), including certain underlying measures, to help explain its business performance and financial position. Where not identified in the body of this report, further information is set out on pages 181 to 190.

Explore online

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

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Our 2020 Strategic Report, on pages 1 to 39, has been reviewed and approved by the Board of Directors on 25 February 2021 and signed on its behalf by Stephen Hester, Group Chief Executive.

An **exceptional year**

While 2020 required a rapid shift to new ways of working, we did not compromise on progressing toward our goals to improve the company.

Dear Shareholders

2020 was a year of turbulence and change, with the pandemic bringing challenges around the world that will require new feats of human endeavour and ingenuity to overcome. On the smaller stage of RSA, I have been proud to see our business come together and adapt to support customers and our employees in these exceptional times.

While the operational strains of Covid-19 can't be overlooked, and have impacted our operations in every region, it is particularly impressive in this context to be sharing record underwriting results at the end of 2020. I thank our shareholders for sticking with us during the more uncertain periods of the year, including our decision to postpone our dividend payments in April, which have since restarted.

Achievements to be proud of

The customer driven instincts of RSA came to the fore in 2020. In every region, we bolstered support for our customers, making day-to-day interactions and doing business with us more flexible and responsive to the extraordinary circumstances of the pandemic. This included moving rapidly to digitalise those of our processes which still involved physical contact, awarding rebates where we saw persistent reductions in claims frequency, and extending special terms to frontline workers and those out of work to make insurance easier to access and more affordable at a challenging time.

Throughout, we continued to be there for customers dealing with familiar but still impactful personal catastrophes, from the significant flooding in the UK at the start of the year to more "everyday" household emergencies, motor accidents and healthcare needs.

Our employees have been at the heart of these efforts, and we have been focussed on supporting them throughout these difficult times. All parts of our business shifted substantially to home working, and we prioritised providing not only the practical technology and kit needed to enable our teams to work effectively, but also flexibility to fulfil childcaring responsibilities and additional support for health and wellbeing. We took no furlough or other government support payments during this time.

Economic constraints led to the need to make changes to our workforce in some areas. Where possible this was achieved by voluntary means. Strong employee survey scores across RSA's regions are testament to the strength of our leadership and the support colleagues have offered to one another.

Every year RSA employees contribute to our communities through fundraising and volunteering, and these programmes have necessarily been constrained by the restrictions of the pandemic. While we've had to think differently, we found new ways to offer a helping hand. In the UK we contributed over £10m to the insurance industry's Covid-19 Support Fund, and we also formed our own new initiatives, notably our Community Grant Programme, which supported 168 organisations with emergency funds. In Canada, we donated funds and employee time to support food distribution to families in need, and in Scandinavia bolstered our support for those suffering poor mental health, social isolation or poverty.

Continued improvement

While 2020 required agility around our plans and a rapid shift to new ways of working, we did not compromise on progressing toward our wider ambitions and goals to improve our company. We continued to focus on and further progress our diversity and inclusion agenda, in particular seeking views from our employees to shape our response to the issues raised by the Black Lives Matter movement. We further embedded our Group Customer Policy to support consistent standards of customer care, and to encourage the sharing of insight and learning between regions. Our scores improved on all the external responsible business indices in which we participate, including leading the pack on the insurance sector's ClimateWise initiative for the second year running.

These developments are only possible with the foundation of a thriving business. Our results this year underlined our ability to drive performance in areas of historic strength and good profitability, particularly Personal Lines, while making substantial improvements in areas where our results have not been as consistent. Notably, our UK business made another step forward, excluding one-off exposures to business interruption claims, and our Canadian and Danish Commercial Lines portfolio showed significant progress thanks to strong underwriting actions.

£550m[1]

Underwriting profit ◊

£502m[2] +45%

1. Excluding UK&I exit portfolios.
2. Total Group.

A new chapter

For RSA, the final twist of 2020 came not from Covid-19, but with a takeover bid received from a consortium of Intact Financial Corporation and Tryg A/S in the final quarter.

Although not sought, the value placed on RSA by the bid underlined the success of our efforts, not just in 2020 but in the journey of improvement over the last 7 years under the outstanding leadership of our CEO, Stephen Hester. This period has seen the market capitalisation of the company double from £3.6 billion to £7.2 billion, whilst our underwriting profits – such an important indicator of the health of an insurer – went from losses in 2013 to reporting record results in 4 out of the last 5 years.

The Board's decision to recommend the offer to shareholders reflected not only our belief that the transaction will accelerate the delivery of value to you, but our confidence that RSA's customers, people and heritage will be passing to responsible hands who share our values.

In that context, the vote of shareholders to approve that recommendation in January marked the end of the chapter, but not the end of the book. Subject to outstanding regulatory and anti-trust approvals, our Canadian, Danish and UK and International teams will help Intact extend their horizons beyond North America. In Tryg, colleagues in Sweden and Norway join what will become Scandinavia's largest property and casualty insurer. I am certain that RSA's expertise, customer care and spirit will live on in and strengthen these organisations for many years to come.

Extending thanks to the team

Businesses achieve success when the energy and talents of many people come together in shared endeavour. This is very much the story at RSA. I have been repeatedly impressed by the exceptional commitment displayed by our people, and I want to put on record my sincere personal thanks to each member of our team, in every region, for their efforts during my time as Chair.

We owe much to the leadership and skill of our Group Executive Committee. Particular thanks are due to Scott Egan, who has contributed to RSA's achievements in recent years first as Group CFO and latterly as UK&I CEO, and to his fellow regional CEOs, Martin Thompson in Canada and Ken Norgrove in Scandinavia. Charlotte Jones, our current Group CFO, who served on the Board as non-executive prior to her appointment, has also made a significant positive impact.

It has been a privilege to Chair an excellent Board at RSA. I'd like to thank all my Board colleagues and extend special mentions to Martin Strobel as Senior Independent Director and Chair of the Risk Committee, Alastair Barbour as Chair of the Audit Committee, and Kath Cates as Chair first of the Risk Committee and then our Remuneration Committee. The Board has been ably supported throughout by our Group General Counsel, Charlotte Heiss, and her team.

Finally, I must express a most heartfelt thank you to Stephen Hester for his leadership. The turnaround of the company during Stephen's tenure as CEO speaks for itself: he has shown tremendous commitment to the cause, matched only by the results he has helped us to achieve.

Farewell

You, our shareholders, have been an integral part of RSA's success throughout our history. While we believe the upcoming sale provides value and reward for that commitment, inevitably there is sadness in that relationship coming to an end, and in writing my own final letter to you as Chairman.

Your support for the Board and our wider leadership team, alongside your investments, have helped build the company we are today. I hope you take pride in this. We are unreservedly grateful for your support, and wish you the very best health, success and prosperity in the future.

Martin Scicluna
Chairman

25 February 2021

Our purpose

Why we exist

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

Our ambition

Where we are going

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

Our strategy

How we will get there

RSA's strategy is to:

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

Read more on **page 14**.

Our business values

What will help us win

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

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

Our people

How we work together

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

What we do and how we create value

1

Products that protect our customers

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

2

Effective product distribution

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

3

Understanding risk to price correctly

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

4

Proactively managing claims

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

Keeping our customer safe and protected

Our resources

Financial
We have £5.1bn of capital which we use to support our customers and generate returns for shareholders.

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

Relationships and partnerships
75% of our business is distributed through our brokers and partner organisations.

People
We have 11,840 colleagues worldwide.

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

Data
The quantity and quality of data is constantly improving and we use this to price and underwrite more effectively and accurately, improving outcomes and experience for customers.

What helps RSA thrive?

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

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

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

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

Creating value for our stakeholders

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

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

Our communities
As a responsible business we are committed to contribute positively to the communities where we operate and proactively manage the impact of our business on the world around us.

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

A **balanced and collaborative approach** to stakeholder engagement

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

Through its programme of stakeholder engagement, the Board gains a meaningful insight into the views, priorities and issues facing its key stakeholder groups and helps RSA's leaders to reflect these in decision-making and planning.

In 2020, the directors and senior management engaged with key stakeholder groups across our geographic regions and different lines of business. These engagements were adapted as external and internal demands on our business evolved, particularly in light of Covid-19 restrictions on operations and travel.

Throughout the year, the Board has reflected on its engagement with various stakeholders, which the Board has found to be informative. The Board has also remained committed to maintaining a range of direct and indirect engagement between the Board and our stakeholders going forward, and has approved the stakeholder engagement plan for 2021.

The sections below set out some highlights from the Board's engagement with key stakeholders during 2020, together with details of the actions taken as a result of this engagement.

Customers

Why the Board engages

A key purpose of our business is to help protect our customers against risk. This was brought into particular focus during 2020 with the challenges of Covid-19, and we are proud to be able to support our customers through this difficult time.

One of the Group's strategic goals is to continually deliver improvements in customer outcomes. The type of customer we serve ranges from individuals through to large corporations, and the Board engages with its customers so that we can continue to provide tailored products and services that meet their diverse and evolving needs.

How the Board engages

The Board has maintained contact with our key strategic broking partners via a regular rhythm of virtual relationship meetings led by our executive directors.

As well as this direct engagement, the Board monitors the Group's relationships with customers through regular updates from relevant operational teams, including regarding customer engagement. The Board also receives reporting on enhanced 'customer and conduct' key performance indicators (KPIs), allowing the Board to assess challenges and to identify the successes of the Group-wide Customer Policy which is charged with increasing the consistency and quality of customer outcomes across the Group. The Board has received an update on our progress in implementing and embedding the Group Customer Policy in Canada, the UK and Scandinavia.

Given the challenges of 2020, the Board ensured that it had visibility of the interim governance set up by management to oversee the hundreds of management decisions that impacted on the way we dealt with customers in response to the Covid-19 pandemic.

When the Board met virtually with our UK Commercial Lines leadership, they received an update on customer behaviours and customer satisfaction in the context of Covid-19, also discussing Motability and commending a Net Promoter Score (NPS) of 90+. They also discussed how our customers' needs are being met by, for example, prioritising continuity of service as well as the affordability actions that were implemented for customers in response to the pandemic, such as premium deferrals. In Canada, the Board also took the opportunity to challenge management on their plans regarding capabilities for the future, growth and profitability in relation to Commercial Lines. The Board has also received an update from UK Personal Lines, which included an analysis of the impact of, and our response to, Covid-19 as well as our progress in delivering strategic objectives.

The Chair of the Board of Codan has attended a meeting of the Nomination and Governance Committee to discuss local stakeholders, including customers. The Board also receives periodic reports from the regional CEOs on customer and conduct matters, reviewing how management demonstrates that there is a customer centric and robust conduct culture and an appropriate response to customer issues when things go wrong. The Board also analyses management information that determines whether good customer outcomes are being delivered, including incident rates, responses and complaints, and in 2020 oversaw the development of additional management information in this area.

How the Board responds

The Board seeks to ensure that the business is consistently achieving good customer outcomes and product value, including by monitoring key changes and decisions that impact on our customers, such as the plan to address the draft Financial Conduct Authority (FCA) Guidance for firms on the fair treatment of vulnerable customers.

As the implications of Covid-19 unfolded, it became clear to the Board that this would be a key area of focus for customers in 2020. With this in mind, the Board discussed potential initiatives and support schemes, and agreed that management should engage actively in discussions with others in the insurance industry. RSA committed a donation to the Covid-19 Support Fund in 2020. In addition, the Board gave particular attention to business interruption insurance and related matters.

Long-term implications

Customer satisfaction and retention are critical to the long-term sustainable prospects of the Group. The Board has engaged with and responded to the needs of customers with this in mind. Board meetings have also been a forum for management to communicate long-term strategic goals. The Board has reflected on management's long-term goals for Personal Lines as an imperative to growing long-term profitability and the focus on key matters, including customer service and digital capability. The Board has also noted increasing customer demand for digital offerings as a long-term trend in Canada and Scandinavia and reflected on how RSA has invested in digital products across the regions.

Workforce

Why the Board engages

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

We want to maintain our culture of working together effectively, fostering the diverse capabilities we require to succeed and achieve best-in-class performance. We are also committed to our strategy of improving our operational delivery for excellent customer service. The Board recognises the central role of the workforce in creating this culture and delivering this strategy.

The Board considers that the most effective workforce engagement results from all Board members maximising engagement with the workforce through the wide range of activities described in this section.

How the Board engages

We know that Boards can set and drive corporate culture, and the Board agreed that enhanced direct engagement with the workforce would help create meaningful and regular dialogue. With this in mind:

- Members of the Board have attended 'town hall' meetings remotely in Canada and the UK so they can hear directly from employees.
- The Board has had virtual sessions with regional Diversity and Inclusion (D&I) councils and employees in the UK, Canada and Scandinavia. The sessions were very well received and considered to be a valuable exercise by both the Board and representative attendees.
- The Group CEO communicated with the workforce about the recommended offer for RSA from Intact and Tryg. Regional CEOs ensured that appropriate and localised information and resources, including Q&As, were developed and shared with employees. These resources included information about the offer, next steps, the impact on strategy and employees as well as pensions and other employee benefits.
- The Board uses Board meetings as an opportunity to reflect on matters that are important to our workforce at a Group and regional level, to ensure that people policies are consistent with our values, including the means for the workforce to raise concerns in confidence, and to monitor that culture is aligned to those values.
- As part of the regular reporting on culture and the workforce, the Board was informed of measures to examine alignment of Group people policy to values, summary findings from quarterly regional reviews of culture health conducted by HR, Risk and Audit, and the volumes, themes and outcomes of cases managed under our whistleblowing arrangements.
- The Board reviewed papers relating to D&I with a particular focus on actions relating to race and ethnicity. The Board received an update on the multiple initiatives in place across the regions that aim to make RSA an inclusive workplace, including the publication of the UK Gender Pay Gap Report and received feedback on our successes as well as progress against stated targets.
- The Board also analysed and compared the results of regional workforce surveys to gauge the sentiment on the effect of Covid-19 on work conditions. The Board learned that continued communication about plans going forward and increased interest in remote working were priorities for our workforce, and about those areas where employees needed continued support. These priorities and the outcome of the regional workforce surveys, including focus areas going forward, were discussed by the Board with managers from the UK and Canada.

How the Board responds

Direct engagement with the workforce has been particularly challenging during 2020 due to the Covid-19 pandemic, and the Board has risen to this challenge. The Board had particular focus on the practical implications of Covid-19 for the workforce, including enabling employees to balance their caring responsibilities with work, and making available various well-being initiatives and resources. While we believe that the Board has successfully achieved a meaningful dialogue virtually with employees, we have included even more opportunities for workforce engagement in our Stakeholder Engagement Plan for next year, including non-executive director dialogue with regional D&I councils. On International Women's Day in 2021, members of the Board will also participate in roundtable discussions with female employees to support their progression to future leadership roles. The Board has reconfirmed its preference for all Board members to engage in a direct dialogue with the workforce.

The Board has reflected on the actions and precautions we are taking regionally to accommodate our workforce's priorities and concerns, and has confirmed that management is appropriately considering and protecting the well-being of our people. The Board continues to monitor initiatives and policies in response to challenging business conditions that impact our people and, consistent with our values, this is approached with sensitivity and support as far as is practicable.

D&I updates have allowed the Board to monitor its compliance with the recommendations in a number of reviews and charters, such as the Women in Finance Charter and the Parker Review. The Board has endorsed actions and policies designed to support the increased representation of women in senior leadership roles. Additionally, the Board undertook the annual review of the Board Diversity Policy.

The Board also requested further training on race, ethnicity, anti-racism and the challenges faced by Black, Asian and other ethnic minority colleagues.

Long-term implications

The Board's engagement with the workforce revealed a number of key priorities, and the Board understands that responding to our workforce's needs and removing any barriers to enablement in evolving working environments are key to the long-term success of the Group.

The Board has responded to the short- and medium-term impact of Covid-19 on the workforce and, in collaboration with management, it has also set longer term goals of growth and productivity.

Shareholders

Why the Board engages

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

We have an extensive engagement programme with our shareholders and analysts. This engagement is important to ensure that we can maintain investor support for our long-term strategic objectives and can continue to access the capital we require.

How the Board engages

The Board considers our Annual General Meeting (AGM) an important opportunity to engage with all shareholders, particularly private shareholders who might otherwise not have any direct engagement with the Board. When the Board was considering 2020 AGM arrangements in light of Covid-19, it reaffirmed its commitment to protect the health, safety and well-being of its shareholders. Accordingly, the 2020 AGM was held as a hybrid meeting, with shareholders able to attend and vote remotely and ask questions in advance and by telephone at the end of the meeting. Similar arrangements were made in respect of the court-sanctioned meeting and general meeting held on 18 January 2021 in connection with the recommended offer for the Company.

Despite the impacts of Covid-19, we were able to continue our extensive investor engagement programme. This included our bi-annual London roadshow, held virtually, in March and September. These were positively received by investors and included meetings with some of our largest shareholders including Cevian, Columbia Threadneedle and Fidelity.

Feedback from our engagements with investors was provided to the Board. In particular, the Board received an update on inbound enquiries from investors regarding Covid-19, which were initially focussed on capital and market turbulence, as well as impacted policy wordings such as business interruption and travel policies.

The Chair of the Remuneration Committee wrote to our largest shareholders regarding our proposal on remuneration which was put to the 2020 AGM. The Board received an update from the Remuneration Committee, which had been considering matters including the voting recommendations from the corporate governance and proxy voting agencies on the Directors' Remuneration Report and the Remuneration Policy. The Board noted positive proxy voting figures relating to the Directors' Remuneration Report and Remuneration Policy ahead of the AGM (at which the Remuneration Policy was approved by shareholders).

There has been additional communication with our shareholders in 2020 as a result of the recommended cash offer by Intact and Tryg, including prior consultation with our most significant institutional shareholder, Cevian, which provided an irrevocable undertaking to vote in favour of the transaction. For further details, see page 11.

How the Board responds and long-term implications

During the year, the Board continually assessed the key priorities of our shareholders and, when necessary, evolved their thinking in the context of Covid-19. For example, after careful consideration, the Board decided to suspend its recommendation for the 2019 final dividend. RSA have since resumed the 2020 interim dividend and RSA's shareholders have benefitted from an improvement in tangible shareholders' equity since last year. For further information see page 18.

The views and best interests of our shareholders have been taken into account in assessing the terms of, and subsequently recommending, the cash offer by Intact and Tryg, as well as in determining the strategic focus of the Group, reflected in the business model set out on pages 4 and 5 and which provides the framework to deliver value on a standalone basis to our shareholders.

Regulators and ratings agencies

Why the Board engages

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

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

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

How the Board engages

The Board engages regularly with the Group's regulators, and in 2020 a regulatory college was held between supervisors (with the exception of the Middle East and Canada). The focus of the discussion was on the impact of Covid-19. While Board attendance by the FCA was postponed to January 2021 due to Covid-19, the PRA attended a Board meeting in 2020 to discuss regulatory priorities.

The regulatory capital requirements of the Group are also monitored and discussed with the relevant regulators directly. The Board also receives periodic updates from the business on regulatory matters and priorities, including the priorities of the Group's regulators in regions other than the UK. Key topics for engagement included culture and governance, treatment of existing customers, operational resilience, the impact of Covid-19 on our customers, treating customers fairly, solvency, liquidity and the FCA Test Case. Customer conduct, including pricing practices, has continued to be a focus of our regulators across the globe.

Senior management interacts regularly with Standard & Poor's and Moody's, our two key rating agencies. Board members have been kept informed of rating agency scores and engagement with rating agencies at Board meetings. Representatives from the Board have also held a governance call with Standard & Poor's, who responded positively to the opportunity to interact with Board members.

How the Board responds

We believe that open and regular dialogue promotes transparency between the Group and its regulators and ensures that we are in a position to reflect the views of our regulators when setting strategy.

The outcomes of our engagement with our regulators influence the Group's priorities and focus for the year set out in the Group's regulatory compliance plan, which is considered and approved by the Board Risk Committee.

Long-term implications

Open and constructive dialogue with our regulators has also helped to ensure that, in 2020, we received PRA approval for the latest enhancements to our internal model at a Group level. In addition, we received internal model approval from the Danish regulator in respect of our Scandinavian entities to mitigate the risk of moving to different models at Group and regional level post the Brexit transition period.

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

Community and the environment

The Board engages with socio-economic and environmental issues because we know that they are important to our stakeholders, as well as to the future prospects of the Group. RSA plays an important role in supporting communities in their times of greatest need, and we also understand the implications of climate change for those facing more frequent and severe weather events.

The Board has received updates relating to our impact on the environment and the wider Environmental, Social & Governance (ESG) agenda. The Board has noted that RSA has continued to focus on responsible investment and underwriting as well as sustainable operations, and the workforce have responded positively to internal communications on our progress.

The Board received a corporate responsibility update which showed important progress such as the implementation of the Climate Change and Low Carbon Policy position, which was approved by the Board at the end of 2019. RSA has also been upgraded by the Carbon Disclosure Project (CDP) from a B to an A- rating, which was a positive step and reflected the improvements made by RSA in measuring and managing risks and opportunities associated with climate change. This was consistent with a significant improvement in the private assessment from ClimateWise.

The Board has also been kept informed of the ways in which we have supported local communities, including through RSA's charitable partnerships to help our customers mitigate risks and the provision of financial support during the pandemic. Despite restrictions impacting direct community engagement opportunities, the Board have been encouraged by the continuing commitment to community investment programmes in all regions.

In the context of a global health crisis, we have also been keen to support health workers in our communities. MORE TH>N gave customers who work for the NHS extended insurance cover to say thank you for their efforts battling Covid-19. Across the Group, we have given customers who work for healthcare providers preferential treatment in similar initiatives.

Suppliers

Our suppliers are critical to our business and the long-term success of the Group. We are committed to the principles of the Prompt Payment Code, and aim to treat suppliers fairly and consistently – for example, by offering equivalent payment terms between suppliers, in order to build strong and lasting relationships. We have structured supplier management practices in place across all regions and are investing in further tools and processes to manage risk in the supply chain and ensure that our supplier relationships are managed in a cooperative and proportionate manner.

During the Covid-19 pandemic, our Claims Supply Chain team worked closely with those suppliers that are embedded in the claims process to ensure that they could continue to offer services safely. In the UK, we provided internal guidance for working with suppliers and monitored the impact of the pandemic through an internal survey, and we also took a similar approach in Canada and Scandinavia.

For further information on how we manage our supply chain and encourage high standards of business conduct, see page 33.

Pension schemes

RSA is committed to fully supporting the pension schemes, and the Board continues to view the pension trustees as a key stakeholder group.

In 2020, the pension trustees were provided with quarterly updates on Group performance, and offered meetings with other RSA senior executives. The Board also continued to engage with and support the development of investment strategy in the UK pension schemes (noting that this is ultimately controlled by the trustees).

The Board considered the position of the pension schemes throughout its discussions with Intact, and in its decision to ultimately recommend to shareholders that the acquisition offer from Intact be accepted. For further information on engagement with pension trustees, please see page 11.

Considering the long-term interests of **our stakeholders**

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

Decision-making and section 172 of the Companies Act 2006

The success of the Group depends on our ability to engage effectively with our stakeholders and take their views into account. Section 172 of the Companies Act 2006 requires directors, in making their decisions and choices, to have regard to a non-exhaustive list of factors to ensure that, in promoting the success of the Company for the benefit of its shareholders, broader implications of decisions are considered. Information on the issues, factors and stakeholders taken into account by the Board when complying with the provisions of section 172 of the Companies Act 2006, the methods used to engage with stakeholders, and the effect of this engagement on the Board's decision-making during 2020 are set out on pages 6 to 9.

The following principal decisions and activities demonstrate how the Board has assessed and addressed different stakeholder interests and impacts in making decisions that support the implementation of the Group's long-term strategy (as set out on page 14).

We believe that principal decisions are those that are material to the Group and that are also significant to any of our key stakeholder groups.

Decisions in response to Covid-19

The Group's response to the Covid-19 pandemic has formed a critical part of the Board's decision-making in 2020 and covered numerous separate areas summarised below. Since the beginning of the pandemic, RSA has been settling claims from both commercial and personal lines policyholders, as well as participating in industry initiatives to provide support and relief to customers and communities affected in all our territories.

The Board has balanced a desire to support our customers in their time of need against the need to protect the well-being of our workforce, maintain a robust capital position and preserve the value of the Group.

Key decisions include the following:

FCA Test Case on Business Interruption claims

In response to Covid-19 and its effect on businesses holding Business Interruption ("BI") policies, the FCA announced its intention to obtain a court declaration on contractual interpretation of certain BI policies in the UK market. The FCA identified a representative sample of 17 policy wordings and invited a subset of 8 insurers, including RSA, to assist by participating in the test case. The Board agreed that it was important to resolve ongoing uncertainty for businesses facing questions around the validity of their BI claims, and therefore determined that it was appropriate for RSA to participate in the test case.

Throughout the year, the Board received periodic updates on the test case and associated activity, including in relation to RSA's potential exposure, and following the judgment of the High Court considered in detail whether or not it was appropriate to seek permission (alongside other insurers and the FCA) to appeal the court's findings to the Supreme Court. Given the questions of law of general public importance that were raised by the test case, and taking into account the interests of stakeholders including policyholders, shareholders and regulators in achieving maximum clarity, the Board considered that it was appropriate to seek permission to appeal.

The Supreme Court handed down its judgment on 15 January 2021 and the Board welcome the clarity that this brings for both customers and the insurance industry.

AGM arrangements

As noted on page 8, the Board approved AGM arrangements in 2020 that were adapted to comply with government restrictions on public gatherings while also giving shareholders the opportunity to participate in the meeting. Shareholders had the opportunity to join the AGM remotely, ask questions in advance or by telephone, and cast their votes by proxy or remotely during the meeting.

Decisions relating to our workforce

The Board remained committed to protecting the health, safety and well-being of our workforce. However, the Board also understands that the needs of our customers are best met by a workforce that is easily accessible, and that the requirements of our regulators cannot always be met outside of the office environment. Taking into account these competing priorities, the Board endorsed the actions and precautions taken by management to support our workforce and facilitate working from home wherever possible in accordance with government guidelines. At the same time, the Board actively monitored the increased operational risk and responses to challenges such as business process outsourcing and ensuring robust IT infrastructure. The Board endorsed support given to employees who were unable to fulfil their work obligations due to caring responsibilities. The Board also supported a phased return to office working for staff when appropriate in each region, and considered matters such as employees' safety, mental health and well-being and the most effective and efficient way of working for each team when doing so.

At the same time, the Board acknowledged employees' desire for increased remote working going forward and noted the opportunities this also presents for the business. Plans to trial such arrangements on a more permanent basis are underway. For more information on the workforce surveys, please refer to page 7.

Dividend suspension

In reflecting on our dividend policy, the Board has been conscious of the need to balance the interests of shareholders against other factors such as pension contributions, maintaining a strong capital position and reputational considerations in the context of current year performance and earnings, management remuneration and other workforce actions. The Board acknowledged that any benefit to shareholders should not be at the expense of other stakeholders.

Throughout the year, the Board reflected on the Group's Dividend Policy and the priorities of investors and institutional shareholders, as well as the views and needs of other stakeholders (in particular our customers, and including the recommendations of the PRA and European Insurance and Occupational Pensions Authority) in light of the evolving Covid-19 pandemic. The Board also considered the recommendation from management and the views of non-executive directors, as well as the expectations of investors based on market trends. The Group's views on an appropriate dividend were shared with the PRA, and the Board reflected on its response.

In April 2020, the Board announced the decision to suspend the 2019 final dividend, having reflected on the challenges presented by Covid-19 as well as the need to support customers and the sensitivity of regulators and other stakeholders to short-term use of capital. The Board took the view that showing forbearance on dividends, maximising capability to support policyholders and contributing to industrywide initiatives would be in RSA's long-term interests. After reflecting on management's recommendation, the Board approved an interim dividend to be paid in December 2020.

Covid-19 relief

During the year, the ABI (including representatives from the Group) met to discuss a Covid-19 relief fund that could support customers and society more broadly. The Board encouraged management to continue discussions regarding the creation of a fund with the PRA and their counterparts at other UK general insurance firms. The Board approved a contribution to the fund when it was launched as the Covid-19 Support Fund designed to raise money for charities supporting those impacted by the crisis. The Board has also been updated on RSA customer initiatives such as a MORE TH>N initiative that gave NHS workers priority service, free courtesy cars and extended cover for home emergencies.

Various relief measures were also implemented in Canada, including premium decreases to reflect driving habits during Covid-19, as well as premium deferrals, premium rebates and the development of consumer rate relief implementation plans for underwriters to deploy on a case-by-case basis.

In Scandinavia, we supported both customers and suppliers by applying our policies and processes with discretion. For example, we paid suppliers early to support their cash flow, were flexible when paying Travel claims to give customers some relief on the cost of their holidays and covered claims related to injuries incurred when home-schooling.

Corporate Responsibility and implementation of the Climate Change and Low Carbon Policy

We know that, in challenging times, our approach to corporate responsibility and our ability to respond to societal problems is more important than ever.

In 2020, we published our 2019 Corporate Responsibility Report setting out progress achieved in the first year of implementing our Confident Futures strategy and the Board received an update on the highlights of 2019 and the priorities for 2020.

The Climate Change and Low Carbon Policy position approved by the Board came into effect on 1 January 2020. This was widely communicated internally through intranet articles, FAQs and team cascades, and was positively received. The policy sets a clear position for investments in and underwriting of energy exploration, extraction and production in the Arctic or Antarctic region, coal mining, power generation from thermal coal, oil sands and shales, Directors and Officers cover for the fossil fuels industry, and a clear commitment to supporting renewable energy. Since the policy came into effect, referrals that have fallen outside the policy have been declined.

The Board has endorsed our policies and challenged management on what else can be done.

Recommended offer

On 18 November 2020, RSA, Intact, Regent Bidco Limited (a wholly-owned subsidiary of Intact) (BidCo) and Tryg announced that they had reached agreement on the terms and conditions of a recommended cash acquisition of RSA by BidCo.

In reaching a decision to recommend the offer, the Board took into account its duty to review and support proposals that it believes can benefit our shareholders, while also considering the interests of other stakeholders. Although the Board considers that RSA has a compelling standalone strategy that would deliver attractive value for shareholders over time, the Board believes that the offer accelerates the delivery of that value and provides an immediate premium.

The Board familiarised itself with the bidders so it could be confident that they shared RSA's values and ambitions. In common with RSA, Intact and Tryg have long histories in their home markets, strong corporate values and a central focus on serving customers. The Board also noted the importance that Intact and Tryg placed on the contribution, skills and experience of RSA employees, and concluded that it could be confident that RSA's employees, businesses and customers could prosper under the stewardship of Intact and Tryg. The Board ensured that, as part of the offer, and save to the extent prohibited by mandatory regulatory requirements Intact and Tryg agreed to maintain for 12 months from completion: the same base salary and incentive opportunities which, taken as a whole, were provided to each RSA employee prior to completion; benefits and allowance packages which, taken as a whole, are at least substantially comparable to those in place for each RSA employee prior to completion; and applicable redundancy and severance payments, benefits and arrangements that are no less favourable than those set out in RSA's existing redundancy practices.

The Board communicated directly and indirectly with the workforce, providing information as and when they could about the offer and its implications. 'Town halls' were hosted by leaders including the Group Chief Financial Officer (CFO) during which the workforce could ask questions directly, and the workforce were also kept informed through the intranet (see page 7).

The Board knows that RSA's three UK defined benefit pension schemes are important stakeholders, and it was also important to Intact to engage with the trustees in advance of the announcement. There was robust, open and constructive engagement between the trustees, Intact and the Board which focussed on putting measures in place to make sure that, should the transaction go ahead, members' benefits would be protected.

UK Cost programme

Last year, we established a simplification programme with the overarching goal of making our UK business simpler for customers and staff. Through a range of actions – including rethinking our physical office space, modernising our IT infrastructure and simplifying our products and services – RSA has committed to help secure the profitability and sustainability of the business for the future.

In 2020, the Board reflected on key initiatives, such as IT simplification and product simplification, noting that a key enabler of simplification is modern technology. The Board challenged management about impacts on the workforce and confirmed that management sought to minimise the number of compulsory redundancies, resulting in the majority of the redundancies in the UK being voluntary. The Board received an update on the areas of cost reduction we are pursuing as part of the first phase of the programme, as well as next steps relating to the second phase of the programme which targets sustainable cost savings going forward.

Remaining resilient and **supporting our customers** by monitoring and responding to changing pressures

Key insurance themes and how we're responding

Climate change and extreme weather

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

- Extreme weather events are not only becoming more frequent but also more intense.
- Significant action is needed to meet the targets set by the 2015 Paris Agreement on Climate Change, which could create transition risks as we shift to a low-carbon economy.
- 2021 sees the UK host the 26th UN Climate Change Conference of the Parties (COP26), which will bring further momentum and agreement on coordinated action to tackle climate change.
- We have sufficient reinsurance to limit our exposure to severe weather events, as well as promoting prevention and investing in cross-industry risk-pooling schemes.
- As part of our Confident Futures strategy, we aim to further reduce our own environmental impact, including helping our customers respond to climate change, and assisting in the transition to a low-carbon economy.
- We are a leading insurer of offshore wind farms and provide cover for solar projects of varying size and scale across the world.
- Our Climate Change and Low Carbon Policy position was approved on 1 January 2020. The policy sets out our position for investments and underwriting across the energy sector, with a clear commitment to supporting renewable energy. Further details can be found on page 32.

Customer conduct

The insurance industry is increasingly focussed on embedding processes to ensure that customer conduct leads to good customer outcomes.

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

Financial markets dislocation

Financial market volatility remains a risk while a persistent low bond yield environment continues to impact investment income.

- Financial market conditions in 2020 displayed significant volatility across multiple asset classes due to uncertainties driven by the global pandemic. RSA is relatively well protected, although not immune, with a conservative bond portfolio and a broad array of internationally derived profits.
- The low bond yield environment continues to persist and, as such, investment income is forecast to fall if yields remain at today's level. This is putting greater emphasis on underwriting discipline and control. We will continue to exit underperforming segments of business where we can't generate long-term sustainable returns and seek to improve underwriting standards, pricing accuracy and risk management in areas where sustained profitability can be achieved.

Post-Brexit transition

Leaving the EU could bring unexpected challenges and extend economic uncertainties.

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

Cyber risk

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

- We have a framework in place to ensure that we protect customer data and monitor and mitigate against potential threats and risks, as well as keeping our employees informed about their responsibilities.
- We have a suite of cyber-specific solutions for large and multinational businesses, as well as solutions for small or medium-sized business (SME). We are monitoring the market to make sure we understand demand and manage exposure.
- Reinsurance arrangements ensure that we are protected from volatility and large losses while we develop our understanding of the sector.

Automation

Automation and robotics are helping corporates better serve customers and become more efficient.

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

RSA's results for 2020 are a **remarkable achievement**, a reflection of 7 years of business building

Dear Shareholders

This is likely to be my last letter to you at RSA, assuming the takeover bid by Intact/Tryg completes as expected in the coming months. It therefore seems appropriate to offer something of a retrospective view of the changes at RSA since I joined in 2014 and what they have delivered.

But first it is right to recognise the context of 2020, and indeed the start of 2021. COVID-19 has blighted the world in so many ways, from health to economics and beyond. All those badly affected deserve our sincere sympathies and understanding. For our own part, RSA has prioritised sustaining customer service during these difficult times. In addition to paying out claims of some £4.6bn for business as usual, COVID-19 related claims of over £250m have been provided for, on top of a range of other customer support measures from premium rebates to bill forbearance and charitable donations.

In 2020 RSA produced excellent underlying profits, record underwriting results and a return on tangible equity of 18.2%[1], above the top end of the targeted range and exceptional for a capital intensive financial institution. This was our fourth record underwriting result in 5 years. Many companies in our industry and elsewhere fared worse and, like them, RSA's results had to be achieved despite a drag on profits from COVID-19 as well as coping with the many other severe challenges it posed – to capital and operations, and most especially to customer service. RSA's results for 2020 are a remarkable achievement, a reflection of 7 years of business building and in turn were the foundation for showcasing the attractiveness of RSA's business in discussions with Intact and Tryg.

As noted, the other major feature of 2020 for RSA was the all cash takeover bid we negotiated, valuing our Company at a 52% premium over the undisturbed share price. The high value placed on our business was testimony to its strength and attractiveness. We were not looking to sell and RSA's future was bright as an independent company. But in a liberal market based economy, shareholder value is rightly prized, forming the basis as it does of savings and pension returns and a well functioning economy. There is no doubt this bid offers our shareholders exceptional value. But the future for other stakeholders is also safeguarded. Our businesses will live on with their new owners, our people will have the opportunity of great careers and our customers will continue to be serviced well.

History and Inheritance

RSA can trace its history back 300 years to the inception of the insurance industry after the Great Fire of London, though today's company is the product of many mergers and acquisitions since that time. This proud history gave us a powerful business franchise with customer loyalty, goodwill and recognition going back decades. It also brought us expert staff, with longevity, and an ethos prizing customer service and teamwork. These business assets lie at the heart of what we have been able to accomplish.

However, RSA in early 2014 also had a legacy of key weaknesses – in capital, in performance, in management, in costs and capability and in a strategy that had not evolved to deal with modern realities. Some of these weaknesses will take still more years to completely eliminate. However, during 2014/15 a fundamental restructuring of the company set right much that was failing, put RSA on a stronger footing and allowed a second phase to begin, aiming not at rescue, but at business outperformance.

What did we do?

We implemented a focused strategy to divest underperforming or ill suited business and concentrate all our resources on our strongest franchises which collectively had coherence and complementarity. We restored capital and risk profile to undoubted strength. We made extensive management changes and began to implement a harder driving performance culture married to the positives of the historic legacy. We cut costs substantially to recognise the essential nature of competitiveness in a mature industry without patents. And we embarked on a comprehensive rebuilding of capabilities across the company, centred on the effective service of customers.

Phase two, the quest for "best in class performance"

With success in restoring RSA to robust health, the mission was expanded to seek excellence, or "best in class" performance as we labelled it. 2016-20 have been spent in pursuit of that mission. This has involved unswerving focus on improving underwriting disciplines, cost efficiency, capability modernisation through technology and ways of working and, at its heart, a focus on winning with and for customers in those areas we could be strong. And enabling all these efforts was continued strategic discipline and performance focus and a drive to make both a permanent part of the RSA culture.

2020 results point to considerable success from these efforts. In all our overseas businesses, which constitute 80% or more of the Group's value, we have achieved best in class results. But "best in class" is a mission more than a destination. Our competitors will keep improving, and we must also to sustain the gains so painfully won. Even in the UK, our most difficult market, performance is much improved (at least ex covid impacts), and we can see our way to the targeted results within the coming few years.

1. Excluding UK&I exit portfolios, refer to pages 181 to 190 for further information.

Business resilience

2020 has shown so well the vital nature of business resilience, a lesson especially relevant in financial services where you are selling a promise to customers to be there when their need arises.

RSA has shown it learnt this lesson. It's not just about strong capital. It's also about strong operations and effective risk management. But above all it's about the ability to absorb blows, externally or internally generated, and to come back effectively. No business can be perfect. Mistakes will occur, weaknesses be uncovered and the unexpected transpire. Our record since 2014 has blemishes. We saw that in excessive exposure to natural catastrophes in 2018. And perhaps in our part of the industrywide wording ambiguities that left some customers uncertain of how policies responded to Covid-19, a position now addressed in the UK by the Supreme Court verdict. But we have and will continue to take the results of weaknesses and mistakes head on, to put things right and to build back stronger.

People, culture and customers

All businesses need the right tools, whether technology, capital, expertise etc. But it's humans that wield those tools and must be accountable for what is made with them. And in particular its leadership. In most businesses the workforce are hard working, dedicated and want their company to succeed. But how well their efforts and talents are aimed and organised, and whether the tools they need are provided, these are the tasks of leadership. And business outcomes so often reflect the effectiveness or otherwise of leadership.

RSA's leadership, our top 100, has changed immensely in recent years, in lineup, in attitudes and in effectiveness. Our accomplishments are a team tribute to this group of people. And for that I am immensely grateful.

But truism as it is, companies are nothing without their ability to satisfy customer needs. In a changing world the basics of need often change slowly, though expectations on how customers are served and through what channels increase and change rather faster. This is no more so than in financial services. RSA has prioritised serving customers well throughout its history. Today the urge is no less strong and high levels of digital investment and investment in skills support more modern delivery. The pandemic has required us to do all this whilst suddenly shifting to home working. We met this challenge well. However, there is always more we aspire to do and plenty of room to improve. That is a challenge that will never subside.

Thank you

Thank you to our customers for their trust which is the lifeblood that motivates our Company. Thank you to our forebears for the inheritance of RSA. Thank you to the Board for constant support and constructive challenge. Thank you to an amazing Chairman, the best I have worked with. Thank you to all my colleagues. Together we achieved a lot. And thank you to our shareholders without whose encouragement and support the urge to achieve would have been much weaker.

RSA's journey is not over. We have momentum into 2021. I'm confident we will do well up to when ownership changes and beyond, and in the unlikely event the bid does not complete, the future will be bright nevertheless.

Stephen Hester
Group Chief Executive

25 February 2021

Performance Improvement Levers

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

Customer service 1

- Continue investment in digital platforms for convenience, flexibility and speed
- Increase customer satisfaction and retention
- Sharpen customer acquisition tools

…and we have several critical assets that help us to create value…

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

Underwriting 2

- Enforce rigorous underwriting standards
- Ongoing 'business as usual' portfolio re-underwriting
- Investment in tools and technology
- Provide training for our staff
- Optimise reinsurance

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

<85% **Scandinavia**

<94% **Canada**

<94% **UK & International**

Cost efficiency and productivity 3

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

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

- Return on Tangible Equity 13–17% or better
- Regular dividend payout of 50–60% of underlying earnings

Measuring our progress towards best-in-class

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

Combined operating ratio (COR)

Definition

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

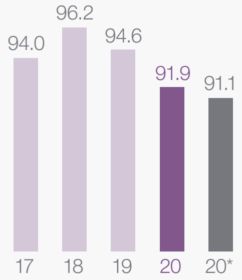
Commentary

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

Outlook

We target further improvements in combined ratio.

91.9%
-2.7pts



APM

Alternative performance measures

RSA uses APMs, including certain underlying measures to help explain its business performance and financial position.

1. The Solvency II capital position at 31 December 2020 is estimated and for both year end 2019 and year end 2020 excludes an accrual for a final dividend.
2. Calculations have been amended to include data that was not available at the time of publication and reflect improvements in methodology. See page 89 for further details.

* Excluding UK&I exit portfolios.

KPIs are linked to executive remuneration. To read more about executive variable remuneration, including the set of financial and non-financial performance measures on which it is based, please see **pages 56 to 84**.

Group attritional loss ratio

Definition

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

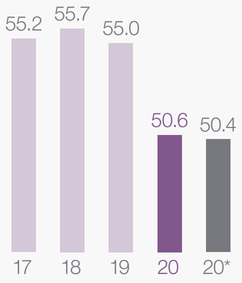
Commentary

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

Outlook

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

50.6%
-4.4pts



Underlying earnings per share

Definition

Business operating result (which represents profit before tax adjusted to add back other charges) attributable to ordinary shareholders less finance costs and underlying tax, per share.

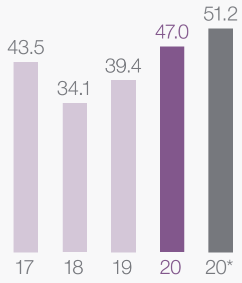
Commentary

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

Outlook

We target continued growth in underlying earnings per share (EPS) as performance improvement actions take effect.

47.0p
+7.6p



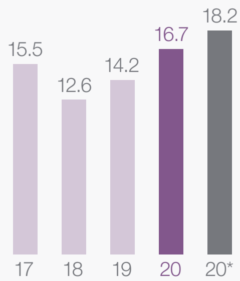
Underlying return on tangible equity

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

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

Outlook
Targeting 13–17% in the medium term.

16.7%
+2.5pts



Profit before tax

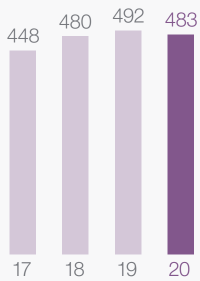
Definition
The net profit generated before taxes have been deducted.

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

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

For the executive remuneration, an underlying measure of profit before tax is used. See page 60 for further detail.

£483m
-1.8%



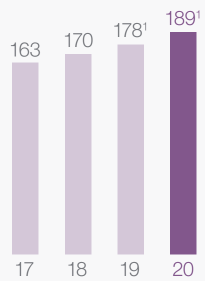
Solvency II coverage ratio[1]

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

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

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

189%[1]
+11pts



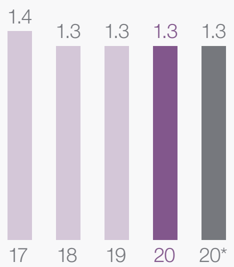
Controllable expenses

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

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

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

£1.3bn
-0.5%



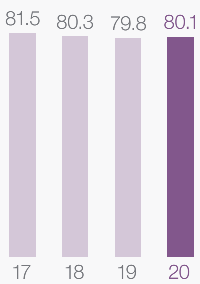
Customer retention

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

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

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

80.1%
+0.3pts



Carbon emissions per FTE[2]

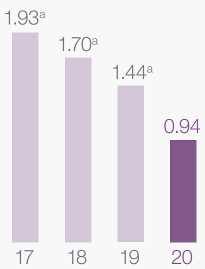
Definition
Gross tonnes of carbon dioxide equivalent per FTE employee.

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

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

a. Figures have been updated in accordance with GHG Protocol guidelines to reflect data and methodology improvements.

0.94t
-34.7%



Excellent underwriting results for 2020

Business foundations remain strong despite significant Covid-19 turbulence

2020 financial highlights

- **Profit after tax of £364m, down from £383m in 2019.**
- **Record underwriting profits of £550m[1]** (2019: £405m[1]), total Group underwriting profits of £502m (2019: £346m).
- **Underlying earnings per share of 51.2p[1]** (2019: 44.5p[1]), total Group underlying earnings per share of 47.0p (2019: 39.4p).
- **Underlying return on tangible equity of 18.2%[1]** (2019: 16.0%[1]), total Group underlying return on tangible equity of 16.7% (2019: 14.2%) versus 13-17% target range.
- **Statutory earnings per share of 30.9p** (2019: 32.6p).
- **Net written premiums** of £6,220m[1] were flat[2] excluding the estimated impacts of Covid-19 of c.£166m (3%) or down 3%[2] overall vs. 2019.
- **Group written controllable costs were £1,339m** (2019: £1,346m). Earned controllable cost ratio 21.5%.
- **Capital levels remain strong** with a Solvency II coverage ratio of 189%[3] as stated, 170%[3] including proforma dividend accrual for full year 2019 and full year 2020 (31 December 2019: 178% as stated, 168% proforma) and tangible equity of £3.3bn (31 December 2019: £2.9bn).

I am pleased to report another year of strong performance at RSA, reflecting excellent underwriting performance for the Group. We report record Group underwriting results and combined ratio, as well as underlying earnings per share of 51.2p and an underlying return on tangible equity above our target range (all on an excluding exits basis).

Personal Lines (56% of the Group's premium) continues to deliver excellent results reporting a combined ratio of 86%[1] helped by lower weather costs overall and Covid-19 frequency benefits. We continue to focus on delivering digital propositions in order to better serve our customers whilst improving efficiency within our operations.

Commercial Lines (44% of the Group's premium) has shown continued improvement, reporting a combined ratio of 97%[1]. In Scandinavia, Danish Commercial improved significantly following pricing and underwriting actions taken. Despite the sharp improvement in results, further actions are to follow in 2021. Canadian Commercial Lines has improved but remains challenging; we have taken extensive underwriting and pricing actions, including some reductions to risk appetite, which has contributed to volumes falling by 8%. The UK Commercial business was significantly impacted by the direct claims costs arising from Covid-19 business interruption claims. However, the underlying business is continuing to improve and we are achieving good growth in our profitable Regional Commercial business.

We continue to provide Alternative Performance Measures (APMs) to show the results for our ongoing businesses, given the significant portfolio exits undertaken in the UK&I to enable better assessment of potential future performance. On this basis, the Group reported 2020 underwriting profits of £550m, a combined ratio of 91.1%, underlying EPS of 51.2p, and underlying return on tangible equity of 18.2%. All APMs are defined and reconciled on pages 181 to 190.

Covid-19

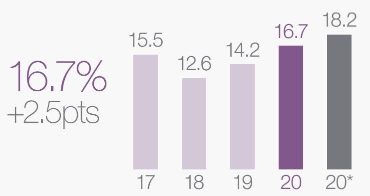
The Covid-19 pandemic had a significant impact upon our customers, our staff and society as a whole in 2020.

From an operational perspective, RSA was able to adjust well to substantially all employees working from home. While there were some areas of service slippage, in general business remained largely as usual. We prioritised health and welfare of our staff and did not take part in government furlough programmes in any of our territories.

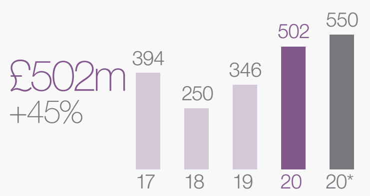
From a financial perspective, Covid-19 impacted our business in multiple ways, resulting in a negative impact on our financial results. There was an estimated c.£166m impact on premium income driven by direct customer relief measures and lower levels of economic activity.

The estimated direct gross claims cost of Covid-19 (including substantial IBNR reserves) was £259m[4]. These claims primarily related to UK and Irish business interruption claims, as well as travel and UK wedding insurance. Reinsurance recoverables arose to mitigate gross claims costs under travel insurance protection, the Group GVC and Group Cat programmes.

Underlying return on tangible equity



Group underwriting result



On 15 January 2021, the Supreme Court handed down judgment relating to the FCA's UK business interruption court proceedings. Subsequently, on the 5 February 2021, the Irish High Court handed down judgment relating to Irish business interruption court proceedings. The estimated impact of these judgments is included in the actuarial indication of ultimate losses, based on initial interpretations of the judgments. Work to fully understand the various implications of these judgments, as legal interpretations develop and claims profiles mature, will continue in future months. As a result there is uncertainty in these estimates at this stage.

During 2020, non Covid-19 claims frequency was down vs prior year in a range 9-34% providing partial mitigation to the negative impacts for Covid-19 claims, investment income reductions and lower premiums.

It is estimated that Covid-19 had a negative impact of £25m[1] on the underwriting result overall.

Below the underwriting result, other charges include £40m of net losses and economic assumption changes relating to estimated Covid-19 market volatility.

Premiums

Group net written premiums of £6.2bn[1] were flat[2] vs. 2019 excluding the estimated impacts of Covid-19 of c.£166m (3%). These consisted of price reductions, refunds, coverage changes and specific business line volume impacts. Including these impacts, net written premiums were down 3%[2] overall vs 2019.

Group retention remained strong at 80% (2019: 80%).

Scandinavian premiums were down 1% at constant FX. Personal Lines premiums were down 2%[2], albeit Swedish Personal Accident, our most profitable portfolio, grew by 3%[2]. Premiums were flat in Commercial Lines at constant FX, with planned contraction in Denmark offset by growth in Sweden and Norway.

Premiums in Canada were up 3%[2] excluding the estimated impacts of Covid-19. This was led by growth in Johnson of 9%[2] (of which 4% organic growth). We continued to achieve high single-digit rate and hard market conditions meant that retention remained strong at c.90% for Johnson. Overall, policies-in-force (PIFs) were up 1% in Johnson. Premiums in Commercial Lines decreased by 1%[2] where volumes broadly offset strong rate. Premiums in Canada were down 1%[2] overall, including an estimated £70m of Covid-19 related customer relief measures impacting written premiums, which also included the delayed renewal of a block of travel business which has been deferred to 2021.

Premiums were down 2%[1,2] in the UK & International region excluding the estimated impacts of Covid-19. Premiums were down 5%[1] overall at constant FX, including an estimated £86m impact from Covid-19.

UK Personal Lines premiums were down 7%[1] excluding the estimated impacts of Covid-19 (down 9%[1] overall). Household premiums were down slightly reflecting a lower renewal base. Pleasingly, retention was up nearly 5 points despite achieving good pricing increases and Pet premiums decreased as we continue to prioritise margin improvements. UK Commercial Lines premiums grew by 4%[1] excluding the estimated impacts of Covid-19 (up 1%[1] overall). We achieved price increases significantly ahead of our plans across all major lines of business and retention was better than prior year across most lines of business. Premiums in Europe were down by 3%[2] driven by planned business lapses in Commercial Lines. Premiums in Ireland decreased by 2%[2] excluding the estimated impacts of Covid-19 (down 7%[2] overall) due to lower Personal Motor new business. In the Middle East, premiums were down 11%[2] excluding the estimated impacts of Covid-19 (down 18%[2] overall) largely due to lower volumes in Commercial Lines and rating pressure in Personal Lines.

Although there was negligible net written premium in the UK&I exit portfolios, there was £15m of premium earned in 2020. Although now largely run-off, the remainder of any residual unearned premium will earn through in 2021.

Underwriting result

The Group underwriting profit was £550m[1] (2019: £405m) with a combined ratio of 91.1%[1] (2019: 93.6%). Total Group underwriting profit was £502m (2019: £346m) with a combined ratio of 91.9% (2019: 94.6%).

Current year underwriting profit for the Total Group was £509m (2019: £314m). The Group attritional loss ratio of 50.4%[1] was 4.5 points better than 2019. Excluding the estimated impacts of Covid-19 the attritional loss ratio was 52.3%, a 2.6 points improvement. The ratio improved by 3.0 points in Scandinavia (of which Covid-19 provided an estimated 1.8 point benefit). In Canada, the attritional loss ratio improved by 8.5 points (of which Covid-19 provided an estimated 3.9 point benefit). The UK & International attritional loss ratio improved by 3.3 points[1] (of which Covid-19 provided an estimated 1.4 point benefit).

Weather, large losses and prior year development[1]

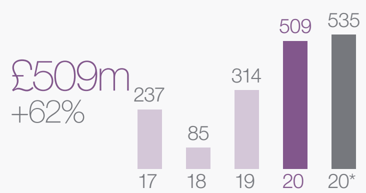
Group weather costs were £140m or 2.3% of net earned premiums (2019: 2.5%; five year average: 2.8%[5]). Weather costs were adverse in the UK & International due to February flooding in the UK, while Canada was better overall.

Large losses were £615m or 9.9% of net earned premiums (Inc. exits: 10.1%; 2019: 9.7%; five year average: 10.4%[5]). Excluding the estimated impacts of Covid-19 the large loss ratio was 8.7%, a c.1 point improvement versus 2019. Scandinavia improved by 0.6 points. Large losses were 1.1 points better in Canada. The UK & International was 10.6%[1] excluding Covid-19 and 2.5 points worse than 2019 altogether.

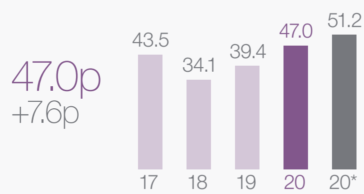
Group prior year profit provided 0.2% of benefit to the combined ratio or £15m (2019: 0.8 points benefit to the combined ratio).

1. Excluding UK & International exit portfolios.
2. At constant FX.
3. The Solvency II capital position at 31 December 2020 is estimated.
4. Gross numbers are net of specific quota share and facultative reinsurance impacts.
5. 2016-2020.

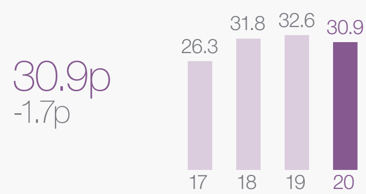
Current year underwriting result



Underlying earnings per share



Statutory earnings per share



* Excluding UK & International exit portfolios.

Segmental income statement – management basis

	Scandinavia[a] £m	Canada £m	UK&I ex. exits £m	UK&I exit portfolios[b] £m	UK&I total £m	Central functions £m	**Group ex. exits 2020 £m**	**Group 2020 £m**	Group 2019 £m
Net written premiums	**1,764**	**1,692**	**2,728**	**3**	**2,731**	**36**	**6,220**	**6,223**	**6,417**
Net earned premiums	1,728	1,702	2,765	15	2,780	(11)	**6,184**	**6,199**	6,462
Underwriting result ◊	**291**	**199**	**90**	**(48)**	**42**	**(30)**	**550**	**502**	**346**
Investment result ◊	**46**	**57**	**110**	**–**	**110**	**–**	**213**	**213**	**263**
Central expenses	–	–	–	–	–	(12)	**(12)**	**(12)**	(12)
Business operating result ◊	**337**	**256**	**200**	**(48)**	**152**	**(42)**	**751**	**703**	**597**
Interest								**(33)**	(32)
Other charges								**(187)**	(73)
Profit before tax								**483**	**492**
Tax								**(119)**	(109)
Profit after tax								**364**	**383**
Non-controlling interest								**(19)**	(24)
Other equity costs[c]								**(25)**	(23)
Net attributable profit								**320**	**336**
Underlying profit before tax ◊							**718**	**670**	565
Combined ratio (%) ◊							**91.1**	**91.9**	**94.6**
Tangible net asset value (£m) ◊								**3,274**	2,910
Underlying earnings per share (p) ◊							**51.2**	**47.0**	39.4
Underlying return on tangible equity (%) ◊							**18.2**	**16.7**	14.2

a. 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.

b. Exit portfolios in UK & International which have substantially run-off over the course of 2020.

c. Preference dividends of £9m (2019: £9m) and coupons on Tier 1 securities of £16m (2019: £14m).

Our assessment of the Group reserve margin (the difference between our actuarial indication and booked reserves in the financial statements) increased during the year to c.5.5% of best estimate claims reserves, above our 5% target level. This was to reflect uncertainty related to Covid-19.

Underwriting expenses and commissions

The Group underwriting expense ratio of 16.1% increased as expected due to lower premiums from Covid-19 impacts. Scandinavia increased by 0.4 points, Canada increased by 2.3 points and the UK & International increased by 1.5 points. The Canadian expense ratio also reflected increased amortisation but was impacted by lower premiums driven by Covid-19. The Group commission ratio of 13.0% was up slightly versus prior year (2019: 12.6%[1]).

Controllable costs

Group written controllable costs were £1,339m (2019: £1,346m). This comprised 2% cost reductions, offset by 1% inflation. At constant FX and gross of inflation, Scandinavia written controllable costs of £371m were down 4% vs. 2019, UK & International £637m was down 6% and Canada costs of £325m was up 10% (as expected).

Group FTE[2] of 11,840 was down 4% versus 2019 primarily reflecting actions taken in the UK cost programme as well as other cost actions across our regions as we continue to automate business processes. Group FTE[2] is down 28%[3] vs. a 2013 baseline.

The earned controllable expense ratio of 21.5%[1] was up versus 2019 (20.9%) due to a lower premium base driven by both portfolio actions and Covid-19. Cost action plans are in place across our regions and our ambition of an earned controllable expense ratio of less than 20% in each region by the end of 2022 remains unchanged.

Investment result

The investment result was £213m (2019: £263m) with investment income of £258m (2019: £306m), investment expenses of £14m (2019: £12m) and the liability discount unwind of £31m (2019: £31m).

Investment income was down 16% on prior year, primarily reflecting the impact of reinvestment at lower yields. The average book yield across our bond portfolios was 1.9% (2019: 2.1%). Based on year end 2020 forward rates, we expect investment income of c.£230m-£245m in 2021.

Other items

Interest costs were £33m (£49m including the Tier 1 issuance), up from £32m (£46m including the Tier 1 issuance) in 2019. Coupon costs of £16m (2019: £14m) for the 2017 Tier 1 issuance are presented at the bottom of the management basis: Income statement (shown in this section of the Annual Report) as 'other equity costs', as per accounting rules.

Other charges were £187m (2019: £73m). Net losses of £77m were incurred, of which £32m related to Covid-19 market volatility. There was also a £14m goodwill charge relating to our Norwegian business.

£78m of restructuring charges were incurred relating to the UK cost reduction programme. This included charges relating to the original £50m programme which was completed in 2020 as well as charges relating to the new simplification programme. This includes a voluntary redundancy programme, IT simplification and substantial property rationalisation.

Changes in economic assumptions represents £8m for the accounting impact of a reduction in the discount rate on long-term insurance liabilities in Denmark driven by Covid-19 impacts on interest rates, while there was also £14m of transaction related costs arising from the proposed sale of the business.

Tax

The Group reported a tax charge of £119m for 2020, giving an effective tax rate (ETR) of 25% (2019: 22%). The tax charge largely comprises tax payable on overseas profits in Canada and Scandinavia. The Group's ETR of 25% is higher than the UK statutory rate of 19% mainly due to higher tax rates in some of the Group's core overseas jurisdictions, withholding taxes, disallowable costs, and a small reduction in the carrying value of the Norway deferred tax asset. The Group underlying tax rate for 2020 was 21% (2019: 20%). Excluding UK&I exited business, the Group underlying tax rate for 2020 was 21%. The slightly increased underlying tax rate, compared to 2019, is mainly due to a greater proportion of profits generated from Canada, which are taxed at a higher rate.

The carrying value of the Group's deferred tax asset at 31 December 2020 was £199m (2019: £209m), of which £181m (2019: £180m) was in the UK. The decrease in the Group's deferred tax assets in 2020 included a reduction in the Norwegian deferred tax asset of £8m. At expected tax rates, a further £312m (2019: £254m) of deferred tax assets remain available for use but not recognised on balance sheet; these are predominantly in the UK, Ireland and Norway. The increase in the year is mainly due to the change in future UK tax rate from 17% to 19% in 2020. The carrying value of the Group's deferred tax liabilities at 31 December 2020 was £105m (2019: £84m), the majority of which are in Sweden and Denmark.

For 2021, we expect the Group's ETR and underlying tax rate to continue to be in the region of 20%, given the scale of unrecognised UK and Irish tax assets.

Tax strategy and contribution

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

The taxes borne by the Group in 2020 were a total of £370m from our four largest territories (UK £95m, Ireland £8m, Scandinavia £145m and Canada £122m). Taxes collected by the same territories were an additional £544m.

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

Solvency II coverage ratio walk[4]

	%
At 1 January 2020	**178[4]**
Underlying capital generation[6]	32
Net capital investment after amortisation	(2)
Impact of pension contributions	(4)
Pull-to-par on unrealised bond gains	(4)
Exit losses	(3)
Reorganisation costs	–
Dividends	(5)
Market movements including IAS 19 and other	(3)
At 31 December 2020	**189[4]**

Balance sheet and capital

RSA's balance sheet and capital is strong and resilient. Tangible net assets increased by 13% to £3.3bn at 31 December 2020. The increase was driven by profit in the year of £446m[5], and foreign exchange gains and fair value mark-to-market movements of £147m, mainly reflecting translational gains from weaker sterling and lower bond yields respectively. Tangible net assets were reduced by investment of £121m in intangible assets which were primarily IT related (net investment of £35m after amortisation of £86m shown as part of profit).

We maintain a measured approach to capital management, targeting a single 'A' credit rating (the Group's S&P rating is 'A' stable and its Moody's rating is 'A2' stable). This involves considering a range of indicators relating to capital, to operating results and to qualitative factors. Following the announcement of the offer from Intact and Tryg, S&P has maintained their 'A' rating but on 'credit watch negative' until it has assessed the impact of the bid, while Moody's has reaffirmed its 'A2' rating.

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

The Solvency II coverage ratio ('SCR') of 189%[4] was up 11 points in the year (2019: 178%[4]).

The key drivers included underlying capital generation[6] which added 32 points of coverage. Pull-to-par on unrealised bond gains accounted for a 4 point reduction and net capital investment after amortisation accounted for a 2 point reduction. Underwriting losses on UK&I Exit portfolios accounted for a 3 point reduction while market movements accounted for a 3 point reduction to coverage. The 2020 interim dividend reduced the coverage ratio by 5 points. The impact of restructuring costs were already recognised in the 2019 coverage ratio and thus have no impact on the 2020 ratio.

Pensions

At an aggregate level, the pension fund surplus under IAS 19 increased during 2020 from a £211m surplus at 1 January to a surplus of £290m at 31 December (net of tax). This was driven primarily by deficit funding contributions paid in January (£75m pre-tax) with the impact of market movements and experience also positive in aggregate.

Further details on RSA's pension schemes and movements in the year can be found in Note 41 to the accounts.

Dividend

Consistent with the 2.7 statement regarding the recommended cash offer for RSA Insurance Group plc on the 18th November 2020, a final dividend for 2020 is not being proposed as this would reduce the cash consideration payable under the terms of the acquisition. However, were the transaction not to complete, the Directors would intend to declare catchup payments thereafter (including in relation to the suspended final dividend for 2019).

Summary

2020 has been an extraordinary year in so many ways. The actions taken over this and recent years to improve performance has enabled the delivery of excellent results, demonstrated a resilient capital position and above target range return on tangible equity[1], despite the negative impacts of Covid-19. The shareholder approval for the all cash offer from Intact and Tryg at 52% premium is on track for completion over the coming months and demonstrates the value created and potential of RSA's businesses.

Charlotte Jones
Group Chief Financial Officer

25 February 2021

1. Excluding UK & International exit portfolios.
2. Full-time equivalent.
3. Ex-disposals (where relevant).
4. The Solvency II capital position at 31 December 2020 is estimated and for both year end 2019 and year end 2020 excludes an accrual for a final dividend.
5. Profit after tax adjusted for items relating to goodwill and intangible assets.
6. Capital generation represents profit after tax attributable to ordinary shareholders, adjusted for changes in intangible assets, deferred acquisition costs and other non-capital items.

Scandinavia

RSA is a top five insurer in Scandinavia, operating as Trygg-Hansa in Sweden and Codan in Denmark and Norway. Our Personal Lines operation, which accounts for around 60% of our regional business, is distributed direct and via agencies, while Commercial Lines makes up the rest of our business.

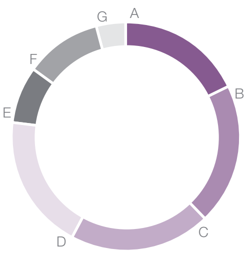
Performance

83.2%
Combined ratio ◊
-4.2pts

£1.8bn
Net written premiums
0.0%

Type of business

A. Household	18%
B. Motor	20%
C. PA and other	20%
D. Comm. Property	19%
E. Liability	8%
F. Comm. Motor	11%
G. Marine and other	4%



Brands

Personal and Commercial:

CODAN FORSIKRING

TRYGG HANSA

Financial summary

	2020 net written premiums		Underwriting result		COR
	£m	**% change[1]**	**2020 (£m)**	2019 (£m)	**2020 (%)**
Personal	**1,037**	**(2)**	**221**	231	**78.5**
Commercial	**727**	**–**	**70**	(8)	**90.1**
Total[2]	**1,764**	**(1)**	**291**	223	**83.2**

1. At constant FX.
2. 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.

Our operations in Scandinavia

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

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

Financial performance

Scandinavia delivered a business operating result of £337m for 2020, up 18%. The combined ratio of 83.2% was 4.2 points better than prior year. Excluding the estimated impacts of Covid-19 the combined ratio was 85.0%. Personal Lines performance remained excellent with a combined ratio of 78.5%. Commercial Lines improved significantly by 11 points to 90.1% with the Danish Commercial Lines generating a £16m profit (2019: £48m loss).

Net written premiums of £1,764m decreased by 1% at constant FX. Personal Lines premiums were down 2%[1] although Swedish Personal Accident, our most profitable lines of business was up 3%[1].

Net written premiums were flat[1] in Commercial Lines where growth in Sweden and Norway offset planned contraction in Denmark. Danish Commercial premiums were down 3%[1] as planned volume contractions more than offset rate.

Large losses of 7.2% improved versus prior year (2019: 7.8%). The attritional loss ratio of 60.4% included an estimated 1.8 points of Covid-19 related frequency benefits. Excluding the estimated impacts of Covid-19 the attritional loss ratio of 62.2% was 1.2 points better than 2019.

Written controllable expenses of £371m were down 3%[1] vs. 2019. driven by cost saving initiatives implemented in 2020. The earned controllable cost ratio of 21.0% decreased by 0.7 points.

Geographically, Sweden generated an underwriting profit of £237m (2019: £263m[1]) and a combined ratio of 77% (2019: 75%). Improved current year performance was more than offset by lower (but still positive) reserve releases. Denmark reported an underwriting profit of £62m (2019: £19m[1] loss) and a combined ratio of 89.4% (2019: 102.9%). This was supported by a strong turnaround in Danish Commercial Lines performance. The underwriting loss in Norway of £8m was lower (2019: £14m[1] loss) driven by modest improvements in the attritional loss ratio and expenses.

1. At constant FX.

Covid-19: our response

The majority of our workforce in Scandinavia has been working from home during the Covid-19 pandemic, reflecting guidelines set by local governments. Significant resource has been deployed to ensure our staff received the appropriate support regarding physical and mental well-being during remote working. Despite remote working, we continued to maintain strong levels of customer service levels with customer satisfaction metrics being in line with expectations. These new working conditions have further accelerated the digital agenda with a greater shift in customer behaviour towards these channels. In Sweden, our Trygg-Hansa brand saw a 20%+ increase in digital traffic in 2020 with over 50% of customers notifying their claims digitally.

Our strategy

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

Outlook

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

Canada

We are the one of the leading insurers in Canada, operating across all provinces, offering a range of Personal and Commercial products. In Personal Lines, which accounts for around 70% of our overall Canadian business, we operate under the market-leading brand, Johnson.

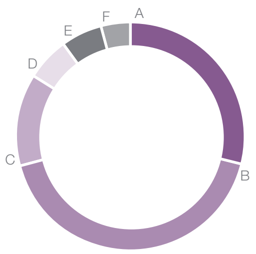
Performance

88.3%
Combined ratio ◊
-6.2pts

£1.7bn
Net written premiums
-2.5%

Type of business

A. Household	29%
B. Motor	42%
C. Comm. Property	13%
D. Liability	6%
E. Comm. Motor	6%
F. Marine and other	4%



Brands

Personal:

JOHNSON WA

Personal and Commercial:

RSA CNS

Financial summary

	2020 net written premiums		Underwriting result		COR
	£m	% change[1]	2020 (£m)	2019 (£m)	2020 (%)
Personal	1,215	(1)	187	106	84.9
Commercial	477	(1)	12	(12)	97.3
Total	1,692	(1)	199	94	88.3

1. At constant FX.

Our operations in Canada

We distribute our products through a variety of channels, with Commercial Lines operating mainly through brokers, and the majority of Personal Lines offered direct and through affinity partners.

Financial Performance

Canada delivered a business operating result of £256m for 2020, up 61% versus last year. The combined ratio improved by 6.2 points to 88.3%. Excluding the estimated impacts of Covid-19 the combined ratio was 91.4%. Personal Lines continued to perform well and the combined ratio improved by over 6 points to 84.9%. Pleasingly, Personal Broker performance showed continued improvement and is now operating at target profitability levels. The combined ratio in Commercial Lines improved by 5 points to 97.3% (2019: 102.3%) driven by improved attritional and large loss performance.

Premiums in Canada were up 3%[1] excluding the estimated impacts of Covid-19. This was led by growth in Johnson of 9%[1] (of which 4% organic growth). We continued to achieve high single-digit rate and hard market conditions meant that retention remained strong at c.90% for Johnson. Overall, policies-in-force (PIFs) were up 1% in Johnson. Premiums in Commercial Lines decreased by 1%[1] where volumes broadly offset strong rate. Premiums in Canada were down 1%[1] overall, including an estimated £70m of Covid-19 related customer relief measures impacting written premiums, which also included the delayed renewal of a block of travel business which has been deferred to 2021.

Weather losses of 3.7% of earned premiums was 1.3 points better than both prior year and the five year average[2]. The large loss charge of 6.9% was 1.1 points better than 2019. The attritional loss ratio of 47.5% improved by 8.5 points in 2020. Excluding the estimated impacts of Covid-19 the attritional loss ratio was 51.4%.

Written controllable expenses of £325m were 12%[1] higher than 2019 driven primarily by an increase in both planned software amortisation charges as well as higher staff costs (also planned) relating to the Scotiabank partnership and some one-off items. The earned controllable expense ratio was 18.8%.

1. At constant FX.
2. 2016-2020.

Covid-19: our response

The majority of our workforce in Canada has been working from home during the Covid-19 pandemic, reflecting guidelines set by local and national governments. We continue to prioritise employee well-being, focussing on mental health initiatives and resources for employees. Despite the impacts of remote working, customer metrics remain strong with an overall Net Promoter Score ('NPS') for Johnson sales and service of +46 (Q4 2019: +45) and an NPS for Personal Broker of +33 (Q4 2019: +29). The Covid-19 pandemic has continued to shift customer interactions towards digital mediums and we continue to invest and develop our digital propositions. 2020 was the first year Johnson handled over 1 million digital sales and servicing engagements, and has seen a 29% increase in fully automated online policy servicing transactions. In addition, chatbot use grew 178% to an average of 600 customers using this channel each day. In our Broker Personal Lines, our digital RSA Pro tool has seen a +30% increase in overall quotes vs. 2019. Additionally, the business provided over $120m in of Covid-19 related relief measures, which included price reductions, refunds and coverage changes, as well as support for the most vulnerable Canadians through a $100,000 donation to Food Banks Canada.

Our strategy

Our operations in Canada are well balanced geographically, by customer type, product and distribution channel, helping us to manage the challenges of adverse weather, increasing claims cost and regulation. Our strategy is one of continuity – to pursue growth in the Johnson business, improve our digital capabilities and retain a focus on disciplined underwriting and pricing to maintain a strong commercial insurance footprint and improved profit contribution.

Outlook

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

UK & International

In the UK, RSA is a leading insurer, operating in both Personal and Commercial Lines. Personal Lines accounts for 46% of our business and Commercial Lines 54% of our business. In our International business, Europe is wholly Commercial, while Ireland and the Middle East offer both Personal and Commercial insurance through a variety of brands.

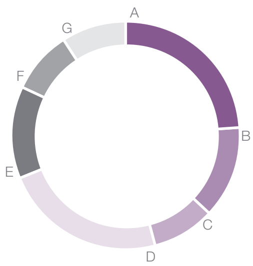
Performance

96.7%[1]
Combined ratio ◊
98.5%[2] +1.4pts

£2.7bn
Net written premiums
-5.2%

Type of business

A. Household	24%
B. Motor	13%
C. PA and other	9%
D. Comm. Property	23%
E. Liability	13%
F. Comm. Motor	9%
G. Marine and other	9%



Brands

Personal:
MORE TH>N
123.ie

Commercial:
RSA INSURANCE

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

Financial summary

	2020 net written premiums		Underwriting result ◊		COR ◊
	£m	% change[3]	2020 (£m)	2019 (£m)	2020 (%)
UK Personal	944	(9)	35	2	96.5
UK Personal ex. exits	944	(9)	39	18	96.1
UK Commercial	1,090	1	(73)	1	106.8
UK Commercial ex. exits	1,086	1	(28)	32	102.7
Total UK	2,034	(4)	(38)	3	101.8
Total UK ex. exits	2,030	(4)	11	50	99.5
Total UK&I	2,731	(5)	42	85	98.5
Total UK&I ex. exits	2,728	(5)	90	144	96.7

1. Excluding UK&I exit portfolios.
2. Total UK&I.
3. At constant FX for UK&I.

Our operations in UK & International

In the UK, RSA operates across both Personal and Commercial Lines. Personal insurance is offered to our customers through MORE TH>N and affinity partners. RSA has a strong presence in the motor, home and pet markets and Personal Lines accounts for 46% of our business. Some 54% of our UK business is in Commercial Lines. This insurance offered to our customers through the RSA brand via brokers or directly.

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

In 2019, we established a distinct European business with its own regional leadership team, headquartered from our office in Luxembourg, with a presence in Belgium, France, Spain and the Netherlands.

UK & International financial performance

The UK & International region delivered a business operating result of £200m[1] for the period (£152m including exits), down on prior year due to Covid-19 related losses and lower investment income. The business delivered a combined ratio of 96.7%[1] (98.5% including exits). However, excluding the estimated impacts of Covid-19, the business operating result was £278m[1] the combined ratio was 94.0%[1]. The attritional loss ratio improved by 3.3%[1] of which 1.4 points related to the estimated positive Covid-19 frequency benefits, while large losses were 2.5%[1] worse of which 2.3 points related to direct Covid-19 claims. Premiums were down 5% overall in the UK & International region at constant FX, this included an estimated £86m impact from Covid-19.

UK[1]

The UK reported an underwriting profit of £11m in the period and a combined ratio of 99.5%. This was heavily impacted by direct Covid-19 claims of £77m. Included within these results are the estimated impact of the Supreme Court Judgment relating to the FCA's business interruption court proceedings, handed down on 15th January 2021. Excluding the estimated impacts of Covid-19 the business delivered an underwriting profit of £88m and a combined ratio of 95.8%.

Net written premiums of £2,030m were down 4% overall, reflecting Covid-19 impacts plus the underwriting and pricing action taken in 2018 and 2019. UK Personal Lines premiums were down 7% excluding the estimated Covid-19 impacts (down 9% overall). Overall retention improved by 3 points during 2020 and was partly helped by lower churn in new business due to the UK lockdown. Household premiums were down slightly but pleasingly we were able to grow our More Than Home book by 8%. Pet premiums decreased as we continue to prioritise margin improvements. UK Commercial Lines premiums grew by 4% excluding the estimated impacts of COVID-19 (1% growth overall). We achieved rate significantly ahead of our plans across all major lines of business and retention was better than prior year across most lines of business. Regions business continued to show strong performance with growth of 9%, supported by growth in new business and rate and retention ahead of our plans.

The weather ratio of 4.1% was 1.2 points worse than prior year and was driven by the February floods which cost c.£35m. The large loss ratio of 14.0% was 2.7 points worse than last year, but was stable versus prior year excluding Covid-19 impacts. The attritional loss ratio of 45.0% was 2.8 points better than 2019 driven substantially by frequency benefits associated with Covid-19 and improved by 1.8 points excluding Covid-19. Prior year underwriting result was an £6m profit or 0.3% benefit to the combined ratio (2019: 0.5% loss). The expense ratio increased slightly due to premium shortfalls but controllable expenses fell in absolute terms. A new simplification programme commenced in 2020 targeting the key levers of people, property and IT, with benefits expected to come through in 2021.

International[1]

International portfolios performed well generating a consolidated underwriting result of £79m (2019: £94m). Continued improved performance in Europe was offset by lower profitability in Ireland and the Middle East (both impacted by lower premiums as a result of Covid-19).

Premiums in Europe were down 3%[2] driven by planned business lapses. Premiums in Ireland decreased by 2%[2] excluding estimated Covid-19 impacts (down 7%[2] overall) due to lower Personal Motor new business. In the Middle East, premiums were down 11%[2] excluding Covid-19 impacts (down 18%[2] overall) largely due to lower volumes in Commercial Lines and rating pressure in Personal Lines.

Exit portfolios

The underwriting loss from these portfolios was £48m for the period. Net written premiums were negligible, while net earned premiums were £15m reflecting the ongoing run-off of exposures. The portfolios have materially run-off with de minimis premiums left to earn in 2021.

Covid-19: our response

The majority of our workforce in the UK & International has been working from home during the Covid-19 pandemic, reflecting guidelines set by local governments. Significant resource has been deployed to ensure staff across our regions have received the appropriate support regarding physical and mental well-being during remote working.

In the UK and Ireland, RSA quickly put in place digital solutions for customers whose lives and financial situations were impacted by Covid-19. Customers were able to flex their policies free of usual administrative charges, and make a number of changes to make sure their cover remained appropriate for them throughout the pandemic. Additionally, MORE TH>N, our UK personal insurance brand, gave customers who work for the National Health Service (NHS) extended insurance cover to say thank you for their efforts in battling coronavirus. In the UK we were proud to be a significant contributor to the insurance and long-term savings industry's Covid-19 Support Fund which launched in May 2020 and has now raised over £100 million.

In Ireland, we provided significant customer forbearance measures which includes refunds of approximately €30m to retail motor customers to reflect the change in driver habits and claims costs.

Our European business launched a new initiative called 'quality education for all', working with EDUCO to provide schools in Burkina Faso with hygiene kits for hand-washing.

In the Middle East our businesses moved swiftly to new digital solutions to help customers buy and service insurance remotely. In Oman we can now transact with people via WhatsApp, and the launch of our eClaims service allows customers to present and monitor claims digitally.

Our strategy

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

Outlook

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

1. Excluding UK&I exit portfolios.
2. At constant FX.

Managing risk
to achieve our goals

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

The Group's operating plan provides a platform for ensuring the business remains aligned with its strategic goals, including strong delivery for our customers and sustainable performance while maintaining a robust capital base. Risk takes an active role in challenging the plan, informed by financial analysis, economic projections, peer reviews (e.g. by the underwriting and actuarial teams), expert judgment and current risk assessments.

Approach to managing risk and our appetite in 2020

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

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

Risk culture – culture of accountability and openness

We consider the foundation of an effective risk management framework to be the cultivation of a risk culture that promotes accountability and openness (a willingness to admit mistakes and learn from the past). At RSA, the senior management team has been instrumental in setting the right 'tone from the top', and we gain insights from Group-wide quarterly culture health reviews and periodic workforce surveys.

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

Risk Management and Governance approach during Covid-19

Maintaining the Risk Management and an effective control environment is essential in times of organisational stress as it helps protect the organisation from harm. Covid-19 has had an unprecedented impact in our business and while it has not fundamentally changed our risk profile the pandemic heightened some risks. Mitigating actions to reduce ongoing pandemic risk have been put in place, these included:

- early changes to policy wordings based on second-wave scenarios,
- reaffirmation of investment and ALM strategy,
- enhanced monitoring of the Group's counterparties,
- RSA also implemented an agile response to ensure that we kept the control environment under constant review. This allowed us to identify where controls needed to be adjusted or reprioritized through a flexible, timely and transparent process that sustained strong governance, while providing continuity to our customer service and ensuring staff safety.

Emerging risk – monitoring future threats

Emerged risk

Cyber risk
Emerging threats arise on a frequent basis, however, there remains a risk of increasing capability of hostile states and organised crime to engineer severe attacks.

Terrorism
Terrorist threats remain high. Attacks could impact a large number of our customers and staff as well as broader society.

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

Pandemic
The full extent of the economic, political, and social consequences associated with Covid-19 are yet unknown. Risk of further waves, vaccine-resistance variants and lockdowns remain high.

Near-term risk

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

Global socio-political uncertainty
Tensions over trade, international relations and EU stability are all factors that may have significant social and economic implications.

Persistent or more extreme weather patterns
A warming planet is resulting in more extreme weather with the potential for further worsening with more persistent patterns arising.

Medium-term risk

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

Longevity risk
Longevity risk can affect long-term annuity-like bodily injury claims and pensions risks. Several factors including medical advances could shift the risk in the future.

Autonomous machines
Autonomous machines are likely to change insurance needs and could have varying effects on frequency and severity of losses.

Transition risk
As economies shift to low carbon emissions the transition could have material micro- and macro-economic implications affecting asset values and economic growth.

Long-term risk

Climate change accelerates
Climate Change trends have been recognised as a key emerging risk for insurers for some time, however, the work of the Intergovernmental Panel on Climate Change (IPCC) and other bodies has increased understanding.

Risk management approach

Risk Management System

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

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

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

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

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

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

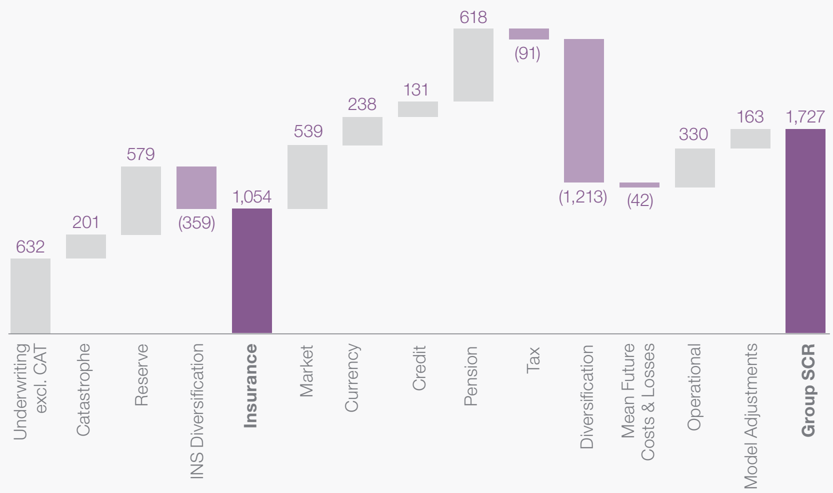
Model outputs checked and used in business decisions
Output from the model is sense checked against non-modelled stress and scenario events to ensure it provides a reliable basis for making business decisions, including capital planning, reinsurance purchase, performance analysis and pricing.

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

Solvency II and Solvency Capital Requirement (SCR)

Insurers are required to calculate the level of capital needed based on their unique risk profile under the Solvency II regulatory regime. For RSA, this is calculated using our own internal model and is a key component of the annual Own Risk and Solvency Assessment (ORSA) process. RSA also publishes its Solvency and Financial Condition Report (SFCR) annually, which contains extensive information on how RSA manages its risks and exposures, and reports the financial position of the Company using Solvency II valuation principles. RSA operates a programme of continuous development in relation to the internal model and a Group-level major change approval was received in 2020 for the latest set of enhancements.

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



1. As per 2019 SFCR published April 2020.

Key risks and mitigants

Key risks and exposures		Key mitigants and controls
Catastrophe risk	Arises from the risk of large natural disasters, with our main exposure being to North European windstorms and Canadian earthquakes.	· Our reinsurance programme significantly reduces our exposure to catastrophe risks, with historical losses being well covered by our programme. The programme is designed to cover at least 1-in-200-year events and is stress-tested for climate change scenarios.
Reserving risk	This is the risk that the Group's estimate of future claims is insufficient. Longer tail-lines of business present more uncertainty on the size and timing of payments, with our largest exposure being the Swedish Personal Lines (including motor).	· Reserves are reviewed and challenged at the Group Reserving Committee meeting which is attended by the Group Chief Actuary, CRO, CUO, CFO and CEO. During 2020 additional focus was given to pinpoint Covid-19 impacts on behaviours and claims patterns as far as possible, to inform assumptions used in the reserving process and projections. · The reserve assurance programme has independently verified >90% of the Group's net reserves over a three-year period. · Claims case reserves are prudently set and reviewed at quarterly case reserving committees.
Underwriting and claims risk	This is the risk that underwritten business is not in line with appetite or is less profitable than planned due to insufficient pricing and setting of claims case reserves. Key exposures arise from large portfolios where claims trends are slow to emerge, such as UK Commercial and Marine.	· Controlled through well-defined risk appetite statements (including climate change factors) which are rigorously monitored at quarterly portfolio reviews, with remediation action taken where deemed necessary. · Brexit risks to inflation and supply chain delays are being monitored and we are ready to respond. · Extensive control validation and assurance activities are performed over underwriting pricing and claims. · During 2020 RSA has taken focussed actions in response to the Covid-19 global pandemic, these include adjusting policy wordings, and enhanced claims monitoring of covid-19 related risks.
Market, credit and currency risk	This is the risk to our insurance funds arising from movements in macroeconomic variables, including widening credit spreads, fluctuating bond yields and currency fluctuations.	· RSA adopts a prudent investment strategy with the investment portfolio favouring high-quality fixed income bonds and selected less liquid assets subject to strong internal and external governance. · RSA ensures assets are closely duration and currency matched with insurance liabilities to hedge volatility. · Investment positions are regularly monitored to ensure limits remain within quantitative and qualitative appetite (including ESG factors). · Asset Managers positioning assets to minimise Brexit risk where possible. · Enhanced monitoring was implemented since the early phases of the pandemic to monitor premium credit risk exposures.
Pension risk	We face longevity and in particular market-related risks, which arise from our defined benefit pension schemes. The largest exposures arise from credit spread and equity movements, although these are partly hedged by offsetting movements in the Insurance Investment Fund.	· Funding assets are well matched to liabilities in the pension schemes, including the use of swap arrangements. · A long-term de-risking plan is in place following the last triannual valuation. · Possible market impacts are examined and well understood with a specific focus on Pension risk.
Operational risk	This risk relates to customer and/or reputational damage arising from operational failures such as IT system failure.	· Operational risk and resilience processes and procedures are in place, including incident management. · Operational resilience mechanisms have been particularly important in 2020 given the pace of change and disruption to the operating environment from Covid-19. Through this time the customer focus and governance has continued to be strong, and resilience plans and procedures have ensured service continuity. · Control effectiveness is monitored through formal Validation and Assurance. · Customer Committees in all regions oversaw decisions for example the provision of financial relief to vulnerable customers during Covid-19. · IT and data risks remain a key focus, especially cyber threat.

Creating a **Confident Future**

2020 has underlined the importance of being able to manage the uncertainties and complexities of today's world.

Our corporate responsibility strategy, Confident Futures, supports how we integrate consideration of a wide range of environmental and social issues into our business practices.

More information on the steps we've taken in 2020 can be found in our corporate responsibility report, Confident Futures: **https://www.rsagroup.com/responsibility/resources/**

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The information contained in the Corporate Responsibility and People sections of this report on **pages 32–39**, together with the description of our business model on **pages 4–5** and our principal risks on **page 31**, form our non-financial information statement.

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Environment

We recognise the important role the insurance industry has to play in addressing climate change by supporting the transition to a low-carbon economy and those facing more frequent and severe weather events. In 2020, we implemented our new Climate Change and Low Carbon Policy position across our operations as part of our commitment to responsible investment and underwriting. We have also implemented our Climate Change Action Plan, embedding climate change considerations in our risk framework and undertaking detailed scenario analysis to explore the potential impact of physical risks on our business. More on our approach to managing the risks associated with climate change can be found in our TCFD disclosure on pages 34 to 37.

In 2020, we saw a 38% reduction in our carbon emissions, a significant proportion of this reduction was due to the decline in business air travel caused by global restrictions on flights. Overall emissions from business travel decreased by 75% compared to 2019. Emissions from our property portfolio decreased by 14%, this was partly due to reduced presence in our offices due to social distancing requirements, and partly because of actions to switch to renewable energy sources and right-size our portfolio for our organisation.

Many of these actions were in place before the impact of the pandemic, however we are committed to taking the additional learning from the switch to more flexible ways of working on board in our future carbon reduction plans. The pandemic demonstrates that the scale of reductions needed to meet our target of a 50% reduction in carbon emissions by 2030 are achievable; nevertheless we need to avoid a rebound to 'business as usual' when restrictions lift. We have also made good progress on switching to renewable electricity sources across our UK and Scandinavian operations: 28% of electricity is now from renewable sources, avoiding more than 1,700 tonnes CO_2e. Full emissions data can be found on page 89.

This year, we have continued to collaborate with external stakeholders through our memberships of ClimateWise, the CRO Forum, United Nations Principles for Sustainable Insurance, and the Climate Financial Risk Forum, developing and sharing best practice on reporting and discussing new ways to integrate environmental, social and governance issues into our decision-making.

Human rights

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

Our aim is to raise awareness of issues, ensure that procedures are in place to prevent breaches, and conduct appropriate due diligence. In 2020, we have embedded a more effective due diligence process to monitor suppliers' approaches to managing human rights, and to track performance over time. We have also rolled out a new e-learning module covering modern slavery risks to supplier relationship managers to increase knowledge and awareness of this issue and the circumstances under which they should seek specialist advice. To date, 86% of UK suppliers are covered by our supplier due diligence assessments on environmental, social and ethical issues, with 70% of suppliers having policies in place that cover human rights issues. Our procurement team considers human rights when reviewing supplier tenders, as well as existing supplier contracts.

Further information can be found in our Modern Slavery Statement: **https://www.rsagroup.com/responsibility/disclosures/**

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Communities

Our Group Community Investment policy ensures that our activities are aligned to our business, employee and community needs. Throughout the year we have contributed more than £13 million worldwide to support the most vulnerable in society through financial relief to local charities and providing support for a wide range of causes, including food distribution, mental health services, and projects to combat loneliness. In response to the Covid-19 pandemic we launched a Community Grant Scheme supporting small, local charities impacted in the UK, distributing over £280,000 in rapid response grants. We also adapted our volunteering programmes to enable people to use their two-day volunteering allowance remotely.

Our main charitable partnerships support our Group-wide goal of improving risk education and changing behaviours to minimise risks by enabling us to combine our expertise and expand the reach of our work. This year, we have reached more than 224,000 people through our programmes on road, water, home and workplace safety, helping to reduce the risk of accidents and the associated pressures they put on healthcare services. In the UK this has included a partnership with the Royal Society for the Prevention of Accidents (RoSPA), targeted at over 65s to reduce the risk of falls in the home. In Canada, we partnered with broker Arthur J. Gallagher to expand the reach of our TruceTO campaign that aims to reduce road accidents and fatalities among cyclists, pedestrians and motorists in Toronto. We have also continued our long-standing partnership with World Wildlife Fund Canada, bringing together community leaders to provide education on flood vulnerability and the role of natural infrastructure in preventing flooding.

Anti-bribery and corruption

Bribery and corruption are not tolerated anywhere in our operations. Our Anti-Bribery and Corruption Policy and Conflicts of Interest, Gifts and Hospitality Policy apply across our business. They set out detailed guidance on facilitation payments, gifts and hospitality and relationships with third parties, as well as the systems and controls to ensure effective implementation. All employees, contractors, business partners and suppliers are expected to comply with applicable laws of the UK and countries in which we conduct business, as well as with our Broker Remuneration Policy and Third Party Contracts Policy, which set out requirements for payments to brokers and procurement activity.

Directors, people leaders and others with supervisory responsibility must ensure that employees, contractors, business partners and suppliers are aware of these policies and comply with them. In 2020, all colleagues were enrolled in a mandatory e-learning training module covering anti-bribery and corruption. We encourage employees to identify and escalate concerns to management or through our confidential third-party whistleblowing hotline in line with our Group Speaking-up & Whistleblowing Policy. Operating countries complete risk assessments that are reviewed and updated annually, supported by a central team to enable continuous improvement to controls. The Audit Committee periodically reviews Internal Audit findings in relation to our Anti-Bribery and Corruption Policy.

Task Force on **Climate-related Financial Disclosures** (TCFD)

We report in line with the TCFD recommendations to help our stakeholders understand the ways in which climate change will impact our business.

The TCFD recommendations, published in 2017, provide guidance for businesses on increasing disclosure of climate-related information.

RSA has adopted the TCFD recommendations reporting on governance, risk management, business strategy to manage climate-related risks and low-carbon opportunities, targets and metrics.

Governance

The RSA Group Board has responsibility for oversight and challenge of the overall strategy of the Group, including considering climate-related issues in business plans and exposure to risks. In 2020, the Board have received regular updates on implementation of RSA's Climate Change Action Plan, Climate Change and Low Carbon Policy position, and considered how climate change risks and opportunities are addressed through the operational plan. In 2020 we have also provided training for our subsidiary Boards on key trends related to climate change, physical and transition risks and RSA's response.

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

The Group Corporate Responsibility Committee oversees the implementation of our Corporate Responsibility strategy, Confident Futures, including our strategic focus on 'Responsible investment and underwriting' and 'Sustainable operations'. This encompasses actions to respond to climate risks and opportunities, including minimising the impact of our direct operations by setting targets and monitoring progress, and supporting the transition to a low-carbon economy.

For more information on Confident Futures, see **pages 32 to 33**
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Risk management

Our enterprise-wide approach to risk management (covered in more detail on pages 28 to 31) ensures that the right processes and procedures are in place to identify, understand and monitor the risks associated with a changing climate across our operations. Climate risks feature on our emerging risk profile and are built into our risk control environment for assets and underwriting. This year we have reviewed our Group-wide policies to ensure that climate change is integrated into relevant requirements and controls, updating our Risk Management and Environmental policies. We have also integrated climate change into our Group Risk Appetite Statement and ORSA.

The key climate-related risks with the potential to impact our business include:

- Increased operating costs from short-term changing weather patterns and increased severity of extreme events (physical, short term) – managed through underwriting actions and reinsurance
- Increased operating costs from damage caused by increased severity and/or duration of extreme weather events such as cyclone, floods, wildfire and/or cumulative gradual climatic changes – for example, in precipitation or sea level (physical, long term) – managed through underwriting actions and reinsurance

- Changes in the operational cost base/claims profile due to new or unproven technologies associated with the switch to electric vehicles, larger turbine size, battery storage (transition, medium term) – managed through underwriting actions and customer engagement
- Reduction in investment returns due to early retirement of assets, reduced demand for products or increased costs of business for carbon-intensive industries (transition, long term) – managed through diversified investment portfolio and risk appetite on carbon-intensive sectors
- Reduction in demand (and associated revenues) for insurance products/services due to increasing costs of premiums, reducing affordability (physical, long term) – managed through product offering, innovation and portfolio management.

The key climate-related opportunities with the potential to impact our business include:

- Increased investment in renewable energy technologies increasing demand for renewable energy insurance and increasing revenue (transition, short/medium term) – managed through product/service offering, renewables centre of excellence and Climate Change and Low Carbon Policy position
- New product and service offerings to provide insurance for new technologies, resource efficiency or infrastructure, such as electric vehicles, rail (transition, short/medium term) – managed through product/service offering, customer engagement and ongoing market analysis
- Development of climate adaptation and resilience solutions (physical, medium term) – managed through product/service offering, risk management expertise and customer engagement
- Increased demand (and revenues) for insurance as changes to weather patterns increase public awareness of the need for cover (physical, long term) – managed through product/service offering and customer engagement.

Strategy

As an insurer, the risks and demands of a changing climate are of critical importance to our business, customers and stakeholders. The climate-related risks and opportunities outlined in this section are integrated into strategic decisions covering:

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

Managing physical risk

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

- Annual policies mean we can respond to changing weather patterns.
- Reinsurance provides protection against losses from severe weather events.
- We work with our customers to promote measures that improve resilience to extreme weather.
- We use weather peril models and geolocation tools to support sophisticated risk assessments and underwriting of residential and commercial properties.

Reinsurance is our primary means of reducing the financial impacts of climate-related losses associated with the physical risks of changing weather patterns. Our catastrophe reinsurance covers flood, windstorms, hurricanes, wildfires and other severe weather events, with special provisions providing additional protection for prolonged or greater frequency events. Our reinsurance programme is designed to cover at least 1-in-200-year events and is optimised to mitigate the impact of extreme weather. We have tested the value and effectiveness of our reinsurance programme against a scenario of rapidly increasing severe weather, which has informed the Board's decision on our forward-looking reinsurance strategy.

Our operational planning processes also consider changing weather patterns. Using up-to-date catastrophe models and building identifiable trends into our weather planning, technical pricing and exposure management is a key part of our underwriting guidance. We also have an opportunity to influence our customers to improve their resilience through risk management tools and advice.

Focus on: Scenario analysis

RSA's stress and scenario testing programmes are designed to help the business understand the potential financial consequences of complex risk events, such as climate change, where the impacts will be broad, far-reaching and with a range of future outcomes. The use of climate scenario analysis to assess climate-related financial risks is a growing focus of insurance regulators and provides a valuable input to inform strategic business decisions.

In 2019 our climate-related stress testing focussed on the PRA's general insurance tests (GIST) which consisted of three hypothetical scenarios – ranging from 2°C to 5°C increases in temperature at different future points in time (2022, 2050 and 2100) and with different transition scenarios. The results of this analysis show an increase in weather-related annual losses due to an increase in physical risks associated with more severe and frequent extreme weather events in the UK and the US. RSA's ability to adjust pricing, reserving, and underwriting in response to adverse weather impacts is an important risk mitigant.

The impact of transition risks associated with the 2°C scenario were limited as RSA's investment portfolio is composed of high-rated assets with minimal exposures to carbon-intensive sectors, as well as government bonds (Scandinavia, Canada, the US and the UK) issued by countries that are among the highest ranking in the Notre Dame Global Adaptation Initiative (ND-GAIN), climate change adaptation rankings.

During 2020, we built on the findings of the GIST by undertaking climate scenario analysis focussed on physical risks designed to specifically address RSA's risk profile and geographical exposure. We formed a dedicated working group, drawing together internal and external expertise to develop two physical risk scenarios linked to increasing concentrations of carbon emissions in the atmosphere covering all three major regions in the Group.

Global catastrophe risk is a material part of RSA's risk profile, and extensive reinsurance arrangements are in place to manage and mitigate this risk. The results of our scenario analysis highlight the importance of reinsurance protection and the Group Volatility Cover (GVC) to mitigate extreme weather events that occur over an extended period of time. Increased severity of weather events is likely to be well covered by our existing catastrophe reinsurance cover. The outcome of the scenario analysis has been considered as part of the Group's short- and long-term reinsurance strategy. During 2021 we will take part in the Bank of England's Climate Biennial Exploratory Scenario (CBES) which will further explore the financial risks posed by climate change and test the resilience of the financial services sector.

These scenarios explored:

1

Impact of a 3 month period of rainfall and flooding on UK exposures
This scenario focussed on modelling an extended period of rainfall and flooding consistent with Met Office research on how climate trends could affect UK weather, and the potential financial impact on RSA. We used loss data from the 2015/16 winter storms as the base case and tested both severity and duration.

2

Linkage between weather patterns covering Canada and Northern Europe
We explored the potential implications for RSA from stronger linkages between European and Canadian weather events caused by jet stream displacement and pressure anomalies, which some studies suggest are becoming more likely as temperatures increase, such as the simultaneous strong storms, heavy rainfall and freeze in winter 2013/14. For this scenario we used our internal model to test windstorm, flooding, and winter storm occurring concurrently across these geographies

Supporting low-carbon transition

Our Climate Change and Low Carbon Policy position sets out the important role we can play in helping society transition to a low-carbon economy. This policy, which came into effect in January 2020, formalises our position on investments and underwriting of carbon-intensive sectors. This seeks to ensure that our business activities are consistent with a below 2°C world, in line with the Paris Agreement, and sets out our commitment to supporting the development of renewable energy technologies through our products and services while restricting capacity available to and investments in certain fossil fuels.

We hold market-leading positions in renewable energy insurance across our portfolio. 62% of our energy underwriting portfolio is in renewables ahead of our 50% minimum threshold. Our Commercial Lines business includes a team of specialist underwriters and risk engineers with the skills, technical knowledge and industry experience to handle construction and operation of renewable energy projects around the world.

Targets and metrics

We recognise the importance of understanding, measuring and managing the impact of our own operations and have set a target to reduce our carbon emissions by 50% by 2030, as well as a commitment to source 100% renewable electricity across our operations by 2025. Our target is set following the science-based target method, in line with the emissions reductions required to achieve the Paris Agreement goals. Reflecting the strategic approach we have adopted to managing climate-related issues, in 2020 we achieved ‘Leadership’ level in CDP (formerly the Carbon Disclosure Project) increasing our score from B to A-.

This year, with the majority of our offices largely unoccupied and limitations on travel, we observed a 38% reduction in our total carbon emissions, including a 75% reduction in emissions associated with business travel. We are committed to using the lessons from this year to inform our plans as we seek to progress our ambitions to lower emissions and achieve our target.

Our metrics:

- Weather-related losses in 2020 were £140m (2019: £167m), representing a weather-loss ratio of 2.3% (2019: 2.5%)
- 62% of energy portfolio GWP in renewable energy (2019: 65%)
- Total carbon emissions (scopes 1, 2 and 3) in 2020 were 11,077 tonnes CO_2e (2019: 17,810).

“Your Best U”

We believe and are proud that our people bring their best selves to work with a shared purpose to deliver good outcomes for our customers and shareholders.

This remained true during the challenges presented by Covid-19 and, although the way we do things changed, there was strengthened determination to live our values through our People Principles of building high performance, sustaining diverse capabilities and working together effectively.

For information on workforce headcount by gender for 2020, please refer to **page 57.**

→

“Colleagues rated the support from RSA during Covid-19 conditions as 4.5 out of 5.”

2020 snapshot

- We acted quickly and decisively to look after our people and their families during the Covid-19 outbreak, mobilising homeworking for the majority, including flexible hours for those providing homecare, and arranging safe office conditions where necessary for certain roles and those who could not work from home for personal reasons.
- Recognising the personal and work-related changes from Covid-19, we launched new well-being resources, providing a wide range of practical and emotional support to help our people and their families adjust.
- Keeping everyone connected was critical; we increased the ways we provide information and listen to views, including weekly leadership calls, frequent all-colleague leadership messages, informal colleague ‘coffee chat’ groups with HR, online forums in our ‘Yammer’ tool, and pulse surveys.
- We were careful to ensure that our people continued to benefit from personal development during new working conditions through virtual training, and we invested in our digital platforms to make access even easier.
- Similarly, we continued momentum in our inclusivity activities and goals, including starting to monitor ethnicity data in the UK.
- Due to economic conditions, we moved to new operating models which resulted in a reduction in our employee workforce. We were sensitive to the personal impacts of these changes and therefore invited applications for voluntary redundancy and shorter hours where feasible.
- Despite such levels of change, we maintained our drive for best-in-class service and team spirit, as shown by a 154% year-on-year increase in nominations for our peer recognition schemes.

Building high performance

Our performance management approach is a 50/50 mix of ‘what’ to deliver and ‘how’, ensuring that our culture and the way we do things has equal status with end results. Our bonus awards differentiate according to performance and, where compatible with local legislation, we encourage participation in employee share plans.

Aiming high and celebrating both the big achievements and day-to-day successes are important to us. Our people made just over 3,000 nominations for our annual UK and Ireland Shining Stars and Superhero awards recognising great service, stand-out behaviours in line with our values, and participation in our community and charity activities. In addition, we invited nominations for ‘Role Model for Equality’ in Sweden and colleagues used our UK, Ireland and Canada Spotlight portal to simply say thanks and share just over 87,000 good news stories throughout the year.

"Colleagues rated the compassion shown to them by RSA during Covid-19 conditions as 4.2 out of 5."

"Colleagues rated RSA communications during Covid-19 as 4.4 out of 5."

Sustaining diverse capabilities

Providing vital services for our customers as well as taking care of colleagues' well-being during Covid-19 was paramount. We equipped our leaders to manage remote teams, which included training, information and support for the practicalities of homeworking.

Inclusive opportunity to succeed is something we aim to be intrinsic in everything we do. We took time to keep this commitment front of mind, for example, communications and events in support of Black Lives Matter. We also participated in external initiatives such 'Dive In' because we take our role to support inclusivity both internally and in wider society seriously.

We have Employee Resource Groups, such as RSA REACH (Race, Ethnicity and Cultural Heritage) in the UK, to raise awareness of the various challenges individuals may face. This also helps inform our policies and practices, including our commitment, wherever possible, to employing and supporting people who are disabled, (or become disabled during their career with us), and welcoming job applications from all sections of the community.

Working together effectively

Our group-wide policies for Employment Practices and Speaking-up & Whistleblowing are designed to support inclusivity and drive consistent standards in line with our values and long-term success. The policies are reviewed annually.

Working conditions in 2020 meant that communicating and remaining focussed on our standards was more important than ever. To gauge how we were doing and to inform next steps, we surveyed our people and were encouraged by the high response rate (a median of 75% across our regions) and the positive feedback. We also took on board views about increased flexible working in future and the need for more development in digital business solutions.

- Compassion shown by RSA scored 4.2 out of 5
- Support from RSA scored 4.5 out of 5
- RSA communications scored 4.4 out of 5

Supporting a healthy culture

We use a dashboard of metrics and feedback from our colleagues, leaders and control functions to regularly monitor our culture, including by our Group Board. Our Board also stay in touch with our culture through engagement with our workforce, as described in the 'our stakeholders' section of this report (pages 6-9). In addition, we have formal relationships with unions and a works council to share and receive information about issues impacting on our people.

Giving our people many channels to speak up about concerns is also important to our culture. We regularly provide training on the ways to do this, which includes anonymous reporting to our whistleblowing system. In 2020, we enhanced guidance for those managing concerns to ensure that our people can be confident in letting us know what is on their mind.

Covid-19 meant we had to adapt how we engage with each other and maintain a collective sense of purpose; feedback from our colleagues told us we achieved this.

Chairman's Governance Letter

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

Directors' and Corporate Governance Report

Dear reader

2020 was an unprecedented year for RSA and the world we live in and I am extremely proud of the hard work and commitment my Board colleagues, the management team and the Group's workforce have shown throughout the year.

The Covid-19 pandemic continues to challenge the Group, both from an underwriting and claims perspective, and operationally. The High Court judgment in the Financial Conduct Authority's (FCA) test case was handed down in September 2020, with the Supreme Court's judgment following in January 2021. The clarity provided by the Supreme Court's judgment has been welcomed and the Group continues to benefit from the reinsurance protection in place.

The proposed offer by Intact Financial Corporation and Tryg A/S for the RSA Group was unsolicited, however, the compelling premium reflects the attractiveness of our businesses to two of our respected peers. I am pleased with the performance of the Group during the year and the continued strong progress towards our best-in-class ambitions.

We continue to be focused on business as usual. The Board is responsible for setting the Group's strategy and overseeing the executive management team in the delivery of this ambition. It monitors the Group's performance and the commitment to best-in-class with careful consideration of the interests of the Group's shareholders, while having regard to the Company's other stakeholders. See pages 6 to 9 for details of the Board's engagement with our key stakeholders.

The Board and its committees focused on the following key areas in 2020:

- Strategy and execution, including the response to Covid-19, and the proposed acquisition of the Group by Intact and Tryg
- Ensuring good outcomes for customers
- People and culture, in particular the impact of Covid-19 on the workforce
- IT and digital
- Finance, capital and investor relations
- Governance, controls, risk and regulatory.

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

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

Commitment to governance

Shareholders and stakeholders continue to be central to the Board's decision-making and at the heart of long-term sustainable growth. The Board believes the framework it has supports effective decision-making, robust governance and risk management throughout the Group, and this report sets out RSA's framework for good governance against this backdrop.

The governance structures in place enabled the Board to react to the Covid-19 pandemic and ensured continued effective oversight of our operations.

Culture, purpose and values

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

The Board reviewed the findings of an additional survey commissioned following the disruption to the workforce caused by Covid-19 and reviewed communications and decisions of management relating thereto. The Board was pleased to hear that the workforce was supportive of the actions taken by management within the year, particularly the level of communication provided. The Board also concurred with management's decision to focus on areas of greatest concern for the workforce, including the plans to return to office environments and a greater uptake of homeworking in the future.

Stakeholder engagement

Open and collaborative dialogue and interaction with all our stakeholders is in the best interests of the Company and helps us to make a positive contribution to society. Unfortunately, Covid-19 restricted the Board's ability to meet with stakeholders in person and undertake physical site visits. However, virtual engagement was still undertaken through virtual town halls and the hybrid AGM in May 2020. Further information on the Board's engagement with its stakeholders can be found on pages 6 to 9.

Board composition, diversity and succession planning

As we reported last year, Clare Bousfield joined the Board and Group Audit Committee with effect from 1 April 2020. Following regulatory approval, Clare took over as Chair of the Group Audit Committee with effect from 23 October 2020. She was also appointed as a member of the Board Risk and Nomination and Governance Committees with effect from the same date.

Alastair Barbour had intended to step down from the Board in October 2020, being the ninth anniversary of his appointment as a non-executive director. Alastair has continued to serve on the Board during the proposed acquisition of the Group to provide continuity and to contribute his considerable knowledge and experience to the Company and the Board. With effect from 23 October 2020, Alastair ceased to be a member of the Group Audit, Board Risk, and Nomination and Governance Committees but remained on the Board as a non-executive director and a member of the Group Investment Committee.

The Board values the breadth of perspective that diversity brings and is committed to maintaining a board that is diverse (in its widest sense). As at the date of this report, women make up 40% of the Board and our Board continues to meet the recommendations of the Parker Review. Our Board Diversity Policy is available on our website www.rsagroup.com. For further information on our approach to succession planning, appointments and diversity, see pages 53 and 54.

Board effectiveness

This year, the performance and effectiveness evaluation of the Board and its committees was conducted internally, following the externally facilitated review last year. The evaluation was conducted using online surveys completed by the Board and regular management attendees to Board and committee meetings, complemented by individual interviews with each director conducted by the Senior Independent Director and the Company Secretary.

The performance of the Board over the last 12 months was very highly rated. The results evidenced that the Board has the appropriate balance of skills, experience, independence and knowledge to enable it and its committees to discharge their duties and responsibilities effectively. The directors agreed that the Board was functioning effectively, with positive dynamics and a well-balanced composition. Further information can be found on pages 47 and 48.

Remuneration

Executive remuneration remains an important topic in the UK and is evaluated by the Board and the Remuneration Committee. Further information on the work of the Remuneration Committee, including consideration of the events of 2020, can be found on pages 56 and 57. A summary of the remuneration policy approved at the AGM in 2020 can be found on pages 77 to 84.

I would like to thank you for your support over what has been a challenging year.

Martin Scicluna
Chairman

25 February 2021

Board of Directors

Martin Scicluna
Chairman

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

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

External appointments
Chairman of J Sainsbury plc.

Stephen Hester
Group Chief Executive

Appointment date: February 2014
Nationality: British

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

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

External appointments
Senior Independent Director of Centrica plc.

Alastair Barbour FCA
Independent Non-Executive Director

Appointment date: October 2011
Nationality: British
Committee membership: I

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

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

Kath Cates
Independent Non-Executive Director

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

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

External appointments
Non-executive director of Threadneedle Investment Services Limited, Threadneedle Pensions Limited and Threadneedle Asset Management Holdings Sàrl, non-executive director and member of the Nomination and Remuneration Committees of United Utilities Group plc and non-executive director and member of the Audit, Nomination & Governance and Risk Committees of TP ICAP plc.

Enrico Cucchiani
Independent Non-Executive Director

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

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

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

Scott Egan
CEO, UK & International

Appointment date: October 2015
Nationality: British

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

External appointments
Board member of the Association of British Insurers.

Sonia Baxendale
Independent Non-Executive Director

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

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

External appointments
Non-executive director, Chairman of the Risk Management Committee and member of the Human Resources and Corporate Governance Committee of Laurentian Bank of Canada, non-executive director, Chair of the Human Capital and Governance Committee and member of the Audit and Compliance Committee at Foresters Financial, President and Chief Executive Officer of the Global Risk Institute in Financial Services and non-executive director of The Bank of N.T. Butterfield & Son Limited (a company listed in Bermuda and New York).

Charlotte Jones
Group Chief Financial Officer

Appointment date: April 2018
Nationality: British

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

External appointments
None.

Clare Bousfield
Independent Non-Executive Director

Appointment date: April 2020
Nationality: British
Committee membership: A B N

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

External appointments
Chief Financial Officer of M&G plc, the international savings and investment company which recently demerged from Prudential plc.

Martin Strobel
Senior Independent Non-Executive Director

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

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

External appointments
Non-executive director and member of the Risk & Audit, Nomination & Compensation, and Strategy Committees of Partners Group Holding AG and member of the supervisory board of MSG Life AG.

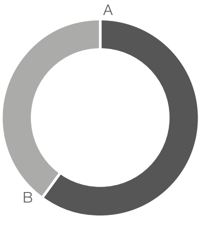
Committee member key

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

Role summaries
For more role summaries, see **page 44**

Diversity of the board*

A. Male	60%
B. Female	40%



Board tenure*

A. 0 to 3 years	30%
B. 3 to 6 years	20%
C. Over 6 years	50%

* As at 25 February 2021.

The Board and its committees

Role of the Board

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

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

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

The division of responsibilities

No individual director or small group of directors is able to dominate the Board's decision-making.

Role statements define the separation of responsibilities between the Chairman and Group Chief Executive and provide a mandate to independent non-executive directors to debate and challenge strategy, execution and performance and bring an independent, objective opinion.

The role statements for the Chairman and Group Chief Executive are reviewed annually.

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

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

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

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

Board committee structure and membership

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

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

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

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

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

Read more on **page 49** →

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

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

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

Read more on **page 53** →

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

Read more on **page 58** →

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

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

Charlotte Heiss Group General Counsel and Company Secretary
Karen Caddick Group HR Director
Ken Norgrove CEO RSA Scandinavia
Martin Thompson President and CEO RSA Canada
Nathan Williams Group Underwriting Director
Ralph Daals Group Chief Auditor
William McDonnell Group Chief Risk Officer

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

Board activities during 2020

Although Covid-19 impacted the Board's ability to meet in person, most Board and certain stakeholder activities proceeded in a revised, virtual format. Covid-19 and its impact on our customers, people and businesses was a key area of focus and, at the beginning of the Covid-19 pandemic, the Board received weekly updates on the impact of the pandemic on the Group's operations and the global economy, the Group's workforce, insurance and financial markets. The Board also received updates at every scheduled Board meeting.

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

- Decisions in response to Covid-19 for our customers and our workforce and the contribution to the ABI's Covid-19 relief fund
- FCA test case on business interruption claims
- Dividends
- Recommended offer by Intact and Tryg
- Corporate responsibility and the implementation of the Climate Change and Low Carbon Policy
- UK cost programme.

Further information can be found in the section 172 statement on **page 10**

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

Customers

- Customer and conduct matters were discussed with management at every Board meeting, including regular updates on group-wide customer metrics and updates from the UK Customer Committee.
- Update on the implementation of the Group Customer Policy.

Strategy and execution

- The Board spent a significant amount of time considering and subsequently recommending the cash offer from Intact and Tryg for the RSA Group. As noted in the Group Chief Executive's statement on page 14, we were not looking to sell the Group and the future for RSA as an independent company was bright. However, this bid offers exceptional value to shareholders and opportunities to our other stakeholders.
- Approved the Group's 2021 operational plan, which included regional operating plans and the strategic priorities to support achieving best-in-class status.
- Received a view of the Group's expected return on capital allocated (ROCA) based on the 2020–2022 operational plan. The analysis looked at returns by region and by line of business relative to capital allocated to provide a risk/capital adjusted lens to assess performance.
- Received a report on market trends and competitor activity in relation to claims performance and innovation following Covid-19. Following challenge from the Board, management agreed to accelerate the pace of digital adoption and artificial intelligence within the Group.
- Specific Board sessions on various topics, including UK Personal Lines, UK Commercial Lines and the UK cost programme.
- Engagement session with the management team in the Canadian region, focusing on industry overview, financial performance, underwriting and the workforce.
- Received an update on the Climate Change and Low Carbon Policy position and the corporate responsibility strategy.

People and culture

- Reviewed the development of diversity, inclusion and equal opportunities within the business, including feedback from the Group Diversity and Inclusion (D&I) Council and progress across the Group against agreed targets and priorities.
- Received regular updates on culture and the results of the various mechanisms to monitor and assess culture, including a regional employee survey on the effect of Covid-19 on working conditions. Further information can be found on pages 38 and 39.

Finance, capital and investor relations

- At each meeting, reviewed and challenged the monthly Group performance pack, which includes a discussion on capital.
- The Investor Relations team presented twice during the year on investor sentiment, competitor trends and comparisons.
- Recommended the 2019 final dividend, which was subsequently postponed, and approved the 2020 interim dividend.
- Approved the Annual Report and Accounts 2019, as well as approving the preliminary results and trading updates in 2020.
- Received an update on the Group's investments and pensions performance.

Governance, controls, risk and regulatory

- Approved the Group's 2020 recovery plan and resolution plan.
- Participated in the annual Board and committee performance evaluation, this year facilitated internally. See pages 47 and 48 for more information.
- Reviewed and challenged the ad hoc Own Risk and Solvency Assessment triggered by Covid-19 prior to submission to the Prudential Regulation Authority (PRA).
- On the recommendation of the Board Risk Committee, approved the Major Model Change application prior to submission.
- Received updates on compliance with the Code and approved the system of governance for the Company.

Induction, training and development

The directors have attended training sessions and seminars during the course of the year on topics such as reserving and UK customer and conduct matters together with deep dives on business areas and participated in virtual stakeholder engagement to keep their knowledge current and enhance their experience.

Board evaluation

Each year, a formal and rigorous evaluation of the Board, its committees, the Chairman and each individual director is conducted. This year's Board evaluation was conducted internally, led by Martin Strobel, Senior Independent Director (SID), and the Group General Counsel and Company Secretary.

Process

The 2020 process was a combination of online questionnaires, supplemented with individual interviews with each Board director conducted by the SID and the Group General Counsel and Company Secretary.

Online Questionnaires

The questionnaires covered: the effectiveness of the Board; the effectiveness of the Board committees; and 360-degree reviews of the performance of individual directors.

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

Interviews

The interviews were used to deep dive into the themes identified in the questionnaires, and to identify tangible actions for discussion by the Board. The interviews focused on: ideas to further improve the effectiveness of the Board and its committees; the balance of skills, experience and composition of the Board; the Board's engagement with stakeholders; Board support and the management and focus of meetings; Board training; and priorities for change and proposed actions, amongst other factors relevant to the continued effectiveness of the Board and its committees.

Results

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

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

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

Outcomes and action plan

Through the 2020 Board evaluation process, the Board confirmed it has the appropriate balance of skills, experience, independence and knowledge to enable it and its committees to discharge their duties and responsibilities effectively. Respondents unanimously concurred that the Board had performed well over the year and was operating effectively.

Taking into consideration the directors' time commitment and performance on the Board and its committees, the Board concluded that all the directors continued to be effective, devoted sufficient time to discharging their duties and made valuable contributions to the Board.

Recognising its strengths and potential development areas, the Board agreed actions for the coming year, as set out below. The committees also discussed the results of their respective evaluation reports and agreed actions where appropriate.

The SID met with the Chairman privately to discuss the output from the discussion with the non-executive directors. The overall effectiveness of the Chairman was unanimously rated as excellent; he was said to be a good listener, foster an inclusive Board which was open and transparent and to have a genuine focus on the best outcomes for the Company in all aspects of his role.

Actions for 2020/2021

The Board agreed the following actions for 2020/2021:

Actions for 2020/2021	Responsibility
Consider whether to further build on international experience/expertise reflecting RSA's global footprint as part of the criteria for the next Board search	Chairman and Group General Counsel and Company Secretary
Continue to seek additional opportunities for the Board's direct engagement with customers and workforce	Chairman and Group General Counsel and Company Secretary
Allocate further Board time for strategic deep dives	Chairman and Group General Counsel and Company Secretary
Maintain momentum in improving Board and committee papers and presentations	Chairman and Group General Counsel and Company Secretary
Maintain a strong focus on stakeholder engagement and engagement results	Chairman and Group General Counsel and Company Secretary

The Board recognises that the outcome of the proposed cash offer for the Company will have an impact on the actions emanating from this year's Board evaluation process, for example the Board does not currently anticipate making further appointments ahead of the offer completing. Some of the remaining actions would be undertaken on the basis that the cash offer does not complete and in the interim, i.e. in the period up to receipt of confirmation that the cash offer has completed.

Progress in 2020

Completion of the 2019/2020 actions has inevitably been impacted by changing business priorities as a result of Covid-19. However, the spirit of the actions has continued, and good progress has been made against last year's actions.

Actions for 2019/2020	Progress in 2020
Maintain the momentum established in relation to stakeholder engagement and look to further improve the Board's understanding of stakeholder views	Stakeholder engagement is now a standing item on each Board agenda and the effectiveness and insights from the engagement is regularly discussed. The planned stakeholder engagement activities for 2020, although impacted by Covid-19, were, where possible, undertaken virtually.
Continue to drive improvements to Board and committee papers and presentations	Revised paper templates were trialled by the Board Risk Committee during the year and new paper templates have since been rolled out to the other Board committees and the Group Board. Paper workshops for authors and presenters were held in 2020 and the start of 2021.
Provide more context on the competitive environment	The Board received updates on the competitive environment during the year and context on the competitive environment and competitor performance, this included a comprehensive analysis of market changes, trends and expectations in relation to Claims in September 2020.

Group **Audit** Committee Report

Role of the Committee

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

Committee composition, skills and experience

Clare Bousfield succeeded Alastair Barbour as chair of the Committee with effect from 23 October 2020. The Committee comprises four independent non-executive directors, and the Board is satisfied that the Committee has competence relevant to the insurance sector, and at least one member has recent and relevant financial experience as required by the Code. The members possess diverse experience, knowledge and skills, which enables them collectively to act as an effective committee.

Details of membership and attendance at committee meetings are shown on page 55 and biographies are available on pages 42 and 43. The role and responsibilities of the Committee are set out in our terms of reference, which are available on the Company's website.

Significant issues

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

The Committee considered and challenged the significant accounting and actuarial judgments and estimates that it believed could be material to the 2020 Annual Report and Accounts and Solvency II reporting.

The impact of Covid-19 has increased the level of estimation uncertainty within several of the significant accounting judgments and estimates. The Committee considered and challenged how this additional estimation uncertainty had been addressed by management and were satisfied that management exercised appropriate judgment and control in line with Financial Reporting Council (FRC) and European Securities and Markets Authority (ESMA) guidance issued on this matter during the year. Given this heightened risk and uncertainty, the Committee also reviewed and challenged the year-end reporting timetable and were satisfied that management had allowed sufficient flexibility to complete all necessary work to an appropriate standard.

In addition to the exceptional matters set out above, the Committee and the external auditors have discussed the significant issues addressed by the Committee during the year. You can read the Independent Auditor's Report on pages 94 to 101.

The significant issues considered relating to financial reporting for the year ended 31 December 2020 are set out below.

Insurance liabilities valuation

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

This included the impact of the Covid-19 pandemic on our claims experience and the claims environment, the impact of the FCA Test Case judgment and legal interpretations, experience following the Ontario insurance auto reforms, business mix changes, changing economic assumptions and potential legislative increases in retirement age in Sweden.

The Committee reviewed the results of the internal reserving assurance programme, which provided independent validation of reserves set at a regional level and, in 2020, covered Denmark, Sweden, Norway and the Middle East. In addition, the Committee commissioned an external review of the Scandinavian business reserves and reserve adequacy, and concluded that the recorded reserves were within an acceptable range.

The Committee also received and considered detailed written and verbal reporting from KPMG setting out its observations and conclusions in respect of the reported insurance liabilities based on its audit procedures, as further described in the independent auditor's report on pages 94 to 101.

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

Deferred tax asset valuation

The Committee reviewed the key assumptions and valuation methodologies supporting the carrying value of the UK deferred tax asset. The profit projections presented by management were assessed and challenged, particularly in light of the history of tax losses and one-off costs as well as the increased level of uncertainty surrounding future profit projections as a result of Covid-19 and the firm offer received from the consortium.

Overall, the Committee was satisfied that the forecasts used in the deferred tax asset valuation model were reasonable when taking into account the levels of contingency included, and that the judgment regarding the carrying value was consistent with that applied at the previous year end.

The sensitivities to key assumptions were also reviewed and challenged. The Committee was satisfied that the increased disclosures proposed were appropriate, particularly in relation to enhanced downside risks to the deferred tax asset in the current environment.

In conclusion, the Committee was satisfied that the carrying value was reasonably stated. The Committee continues to monitor the UK deferred tax asset on a biannual basis.

Pension and post-retirement obligations

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

The Committee concluded that the changes proposed by management in relation to mortality assumptions and the assumed gap between future Retail Price Index (RPI) and Customer Price Index (CPI) inflation were appropriate and the assumptions used overall were deemed reasonable and within acceptable benchmark ranges.

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

Goodwill and intangible asset valuation

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

The Committee approved a full impairment of the carrying value of Norwegian business of £14m. The Committee also considered and approved the carrying value of other intangible assets, noting some small impairments of software no longer in use.

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

Investment valuations

The Committee has ensured that management have exercised appropriate judgment and control in performing valuations of equity and debt security investments. This includes the judgment required when assessing for objective evidence of impairment, specifically if a decline in fair value is significant or prolonged. The Committee approved impairments of £32m.

Swedish debtor remediation programme

The Committee also spent time understanding the overstatement of debtors identified in Scandinavia during a balance sheet remediation programme.

The Committee received presentations from management on the background to the issue and whether the identified error, which had built incrementally over a number of years required a prior year restatement to be included within the financial statements. With input from the internal and external auditors, the Committee discussed and challenged management on the planned remediation activity including internal controls and interim measures to ensure that these were sustainable and would adequately remediate the issues identified.

The Committee was satisfied that the correction of £32m to insurance debtors should be made in the current year.

IT systems and controls

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

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

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

Alternative Performance Measures (APMs)

The Committee discussed and challenged management on the presentation of APMs in the half- and full-year results announcements and Annual Report and Accounts in line with external guidance and FRC expectations. Specifically, further guidance was issued in 2020 in response to Covid-19 and the potential impact on reported results. The Committee reviewed the additional disclosure included in the 2020 full-year results announcement to provide a number of adjusted APMs relating to the impacts of the UK&I exited portfolios, in line with those provided at half year 2020 and the estimated impact of Covid-19.

The Committee agreed with management's consistent use of APMs, which aim to provide clear information on the Group's performance to enable users to understand and assess the performance of the continuing business and evaluate future performance potential.

Solvency II reporting

Solvency II reporting is a key focus for the Committee. It received quarterly reports on the Solvency II Technical Provisions, Balance Sheets and Own Funds, including the reconciliation to International Financial Reporting Standards (IFRS) results as well as quarterly and annual movements. The Committee satisfied itself that the calculations had been conducted according to the Group's Basis of Preparation, including the introduction of allowance for the Volatility Adjustment. The Committee reviewed management's proposals and basis of preparation for the Solvency and Financial Condition Report (SFCR) and the Regular Supervisory Report (RSR) for the year ended 31 December 2020.

Key activities during the year

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

- Considered whether it was appropriate to adopt the 'going concern' basis of accounting for the 2020 Annual Report and Accounts and the basis on which the viability statement is made, recommending to the Board that both were appropriate. The viability statement, on page 88, helps demonstrate how the Group's prospects and viability have been assessed.
- Considered whether the 2020 Annual Report and Accounts were fair, balanced and understandable, and whether the disclosures were appropriate. Taken as a whole, the Committee is satisfied that the 2020 Annual Report and Accounts are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.
- Received regular updates on relevant accounting standards that could impact on the financial statements to ensure that new accounting standards were understood and appropriately reflected in the financial statements. Specifically, the Committee received updates on the IFRS 17 Insurance Contracts Group delivery programme and reviewed and approved the Group's proposed accounting policies to be adopted on transition. The Group did not make any significant changes to its accounting policies during 2020.
- Received quarterly updates on the assessment and testing of financial processes and controls as part of the Financial Control Framework (FCF), including any deficiencies and the actions taken to address. The Group operates an external Quality Assurance (QA) programme, providing independent assurance over the FCF and its operation as well as bringing industry insight and

benchmarking to support continual process improvement and control optimisation. An independent review of the UK FCF operations was conducted in 2020 and reported satisfactory results.

- At the half year and year end, considered and discussed KPMG's findings and opinions in relation to the key risk areas, judgments, changes to the audit plan and materiality, and discussed the underlying reasons.
- Considered KPMG's wider comments on governance, financial reporting processes and efficiencies as well as comments on information systems and controls and separately their reporting on Solvency II returns and observations on key areas of judgment in relation to Solvency II.
- Received updates from the Group General Counsel and Company Secretary on relevant legal developments.
- Monitored compliance with the Group's reserving policy by each business to ensure that the Group's reserve margin remained adequate and that the uncertainty considerations were appropriate.
- Received quarterly reports from Group Internal Audit on audits conducted, progress made in dealing with the issues raised as well as any thematic issues arising and the underlying causes. Delays in closing any actions arising were given particular scrutiny.
- Considered the semi-annual assessment of the effectiveness of the governance, risk and control framework in each region from the Group Chief Auditor.
- Reviewed and approved the Group Internal Audit Charter which sets out the function's role, mandate and authority, and includes independence and objectivity criteria.
- Reviewed and considered the arrangements for monitoring and reporting of whistleblowing activities. Clare Bousfield has oversight of whistleblowing arrangements in accordance with the PRA's Senior Insurance Managers Regime and has also been appointed as the FCA Whistleblowing Champion.
- Reviewed the procedures for detecting fraud and the systems and controls for the prevention of bribery and received reports on any non-compliance.
- Received briefings and undertook deep dives on a number of matters, including IT validation, and long outstanding issues raised by Internal Audit in areas including Underwriting, IT and Systems, Claims, Product and Distribution, and regional updates from Scandinavia and Canada.
- Considered an externally commissioned assessment relating to our Scandinavian reserves and assessed its recommendations. The Committee also received an update on last year's externally commissioned assessment of substantially all of our UK reserves.
- Considered presentations from regional management regarding the Group's internal controls, including challenges with Scandinavian reserving data reconciliation, updates regarding Swedish debtors, progress on the underwriting accumulation system and Canadian claims handling challenges.
- Held private meetings with the Group Chief Auditor, the Group Chief Financial Officer, the external auditor and the Group Chief Actuary without other members of management being present.
- Held regular private Committee meetings without management present to discuss which items to focus on in the subsequent meeting and any other issues.
- Amended the Committee Terms of Reference, available at www.rsagroup.com.
- The Committee was subject to evaluation as part of the wider review of the Board and its committees during 2020, see page 47. The overall performance of the Committee was very highly rated.

Internal Control

To continually assess the effectiveness of the Internal Control System, the Committee received regular reports from the Group Chief Auditor, external auditor and the Group Chief Risk Officer on the integrity of the control environment and discussed and challenged the findings, recommendations and proposed control improvements set out in the reports. The Committee reviewed the effectiveness of the Internal Control System during 2020 and concluded that it was appropriate and operated effectively during the year.

The Committee considers that an effective and appropriate ongoing process for identifying, evaluating and managing the significant risks faced by the Group was in place during 2020 and for the purposes of approving the Annual Report and Accounts. See pages 28 to 31 for more information on the Group's Risk Management Framework.

Group Internal Audit (GIA)

The primary purpose of GIA is to 'keep RSA safe and improving'. Specifically, GIA helps the Board and executive management protect the assets, reputation and sustainability of the Group. GIA does this by assessing whether all significant risks are identified and appropriately reported by management and the second line of defence to the Board and executive management, and adequately controlled. GIA also challenges executive management to improve the effectiveness of governance, risk management and internal controls.

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

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

GIA operates a six-monthly rolling risk-based audit plan, allowing for a frequent and dynamic risk assessment that includes emerging and systemic risks. The Committee may request additional audits as required. Rolling audit plans were approved by the Committee in May and December 2020 and their input was included in the plans.

In December 2020, the Group Chief Auditor also provided the Committee with an assessment of the skills and capabilities required to conduct the audit work for 2021, and whether the budget is sufficient to recruit and retain staff with the expertise and experience necessary to provide effective challenge throughout the Group and to executive management.

GIA operates an ongoing QA programme that is performed by external specialists. A summary of the QA results is reported annually to the Committee. The Committee remained satisfied that GIA was operating effectively, sufficiently resourced, and that the risk to their independence and objectivity was low.

External auditor

Auditor tenure

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

During the year, the Committee considered its position on the external audit services contract and concluded that it was not appropriate to tender the audit at this time in the context of the offer. This position will be reviewed again in 2021, as appropriate.

The Company has complied with the Statutory Audit Services for Large Companies Market Investigation (Mandatory Uses of Competitive Tender Process and Audit Committee Responsibilities) Order 2014 for the year ended 31 December 2020. It is the intention of the Committee that the Company will tender the external auditor appointment at least every ten years, with the next tender due by the end of 2023.

Auditor independence and objectivity

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

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

- Limiting the nature and value of non-audit services performed by the external auditor as set out in the non-audit services policy
- Ensuring that employees of the external auditor that have recently worked on the audit are not appointed to senior roles within the Group
- The rotation of the lead engagement partner at least every five years. Salim Tharani was appointed as the lead audit partner in July 2020
- Private meetings with KPMG without management present to provide the opportunity for open dialogue and to raise any matters in confidence.

Audit quality

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

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

KPMG presented to the Committee on the FRC's inspection findings report on the KPMG 2019/2020 audit cycle. The Committee discussed the actions taken by KPMG in response and how they impact the RSA audit.

Auditor performance

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

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

On the basis of the review, the Committee is satisfied with the work of KPMG. The Committee believes that KPMG's performance reflected the relevant skills, rigour, perseverance and robustness expected and that it is objective and independent. Accordingly, resolutions to re-appoint KPMG LLP and give authority to the directors to determine their remuneration will be submitted to shareholders at the 2021 AGM, as appropriate.

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

Fees and non-audit services

The audit fee for 2020 was discussed and considered before being approved by the Committee on behalf of the Board.

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

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

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

The non-audit fees for 2020 were £1.6m which related to audit-related assurance services including £0.9m in respect of Solvency II reporting. The Committee considered that KPMG is best placed to complete the Solvency II assurance work given its knowledge and understanding of the business and IFRS reported position. Full details of the remuneration paid to KPMG during 2020, including for non-audit services and the ratio to audit fees, is provided in the notes to the financial statements on page 128.

Clare Bousfield
Non-Executive Director and Chairman of the Group Audit Committee

25 February 2021

Group **Nomination and Governance** Committee Report

Board and committee composition

The Committee led the processes in relation to the changes made to the Board and its committees during the year. As previously reported in the Company's 2019 Annual Report, Clare Bousfield was appointed as a non-executive director to the Board and as a member of the Group Audit Committee on 1 April 2020. Following a recommendation by the Committee, the Board approved Clare's appointment as Chair of the Group Audit Committee in place of Alastair Barbour, and as a member of the Board Risk Committee and Nomination and Governance Committee with effect from 23 October 2020. Clare brings extensive experience in audit and finance to her role as Chair of the Group Audit Committee, along with a considerable, technical knowledge of the insurance industry.

Alastair Barbour ceased to be a member of the Group Audit Committee, Board Risk Committee, and Nomination and Governance Committee with effect from 23 October 2020 but remains a member of the Group Investment Committee and member of the Board.

Succession planning

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

Following Clare's appointment, the Committee considered the results of a refreshed skills review and the areas for strengthening, together with the tenure of directors, diversity of members and the size and combination of the Board and its committees as part of succession planning discussions.

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

Board succession planning was put on hold in September 2020 in light of the proposed cash offer for RSA Insurance Group plc by a consortium of Canadian insurer Intact and Danish provider Tryg. Existing executive and senior management succession plans remain in place and will be promptly revisited by the Committee in the event that the cash offer does not complete.

Diversity and inclusion

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

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

- The Board reviewed its Board Diversity Policy which codifies previous commitments to diversity and incorporates a commitment in relation to the Parker Review to have at least one Black, Asian, or minority ethnic background board member. The Committee is pleased to confirm that the Board is currently compliant with this recommendation.
- Group-wide gender data was provided to the Hampton-Alexander Review for a consecutive year, demonstrating our continued commitment to good governance and transparent reporting. The Board aspires to meet the recommendations of the Hampton-Alexander Review and can report that, as at the date of our submission, 31 October 2020, women made up 40% of the Board and 36.4% of our senior leadership positions.
- The Company remains a signatory to the Women in Finance Charter having exceeded the initial target of a 33% representation of women in our management group by 2020. We have continued to make progress and now have a 35.3% representation in our management group (a further improvement since 2019 when the representation was 34.6%).

Workforce headcount by gender at the end of 2020

	Male	Female
Group Board of Directors	6	4
Group Executive Committee	7	3
Senior Management Group	369	201
Group overall	5,703	6,677

NOTES:

Based on Group-wide permanent and non-permanent headcount. In line with FRC guidance, the headcount information shown in the table above covers RSA's wider workforce, including contractor, temporary and agency workers. Senior management reflects the same group reported in Women in Finance Charter goals. As at 31 December 2020 there were 115 males and 34 females who were directors of subsidiary undertakings included in the consolidation. This includes dormant companies. It is not a reference group that RSA uses and we do not believe it is an accurate indicator of diversity; however it is disclosed to comply with regulatory requirements.

There are independent contractors in Scandinavia for whom gender data cannot be collected. These individuals have been excluded from the gender headcount analysis shown above.

- Across each region we continue to invest in strengthening the pipeline of female employees for senior leadership positions and have developed a framework of initiatives designed to help retain, develop and promote female employees and improve diversity and inclusion more broadly, including targets for senior management in each key region.
- Ethnicity data monitoring has been introduced in the UK to analyse employee ethnicity demographics and recruitment activity, helping to bring a diversity lens to senior management appointments.

Stakeholder engagement

The Board's planned stakeholder engagement activities for 2020 were inevitably impacted by Covid-19. However, the Board was able to adapt and continue with the spirit of the planned engagement by virtual means in lieu of physical site visits, town halls and meetings. Further details of the Board's stakeholder engagement activities are set out on pages 6 to 9.

In response to the Code and reporting requirements under section 172 of the Companies Act 2006, the Committee has reviewed the Board's direct and indirect engagement with the Company's key stakeholders and discussed the Board's stakeholder engagement plan for 2021. The stakeholder engagement plan for 2021 will be updated and shared with the Board on a quarterly basis as events take place and as guidelines develop.

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

The Committee was satisfied the stakeholder engagement undertaken by the Board during the year was appropriate and agreed, having regard to the challenges posed by Covid-19, that there had been constructive two-way dialogue with the Group's workforce through Board members' virtual attendance at town halls, regional D&I council meetings and sessions with the UK Personal Lines, UK Commercial Lines and Canadian teams.

The Committee agreed that the key priorities for stakeholder engagement in 2021 are customers, workforce, shareholders and regulators. Stakeholder engagement is a standing agenda item at each Board meeting, demonstrating the Board's commitment to maintaining meaningful engagement with all its key stakeholders. The Board is looking forward to returning to site visits and physical town halls with the workforce as soon as reasonably possible.

Other activities

- The Committee reviewed compliance against the Code and concluded that the Company has complied with the Principles and Provisions of the 2018 Code throughout the year, see page 86. Alastair Barbour had intended to step down from the Board in October 2020, being the ninth anniversary of his appointment as a non-executive director, however the Board requested that Alastair continued to serve on the Board during the proposed acquisition of the Group. The Board remains confident that Alastair continues to demonstrate independence of thought and judgment, and believes the stability of Alastair's continued tenure is in the best interests of the Company and its shareholders during the offer period.
- The Committee considered the non-executive directors' external appointments and in each case was satisfied that the external appointments could be approved on the basis that they did not give rise to a conflict of interest and would not impact the director's time commitment to the Company.
- The Committee reviewed and discussed the results of the Board and committee evaluations, with particular emphasis on how the results will influence Board composition and succession planning. Further information relating to the Board evaluation process and results is included on pages 47 to 48.
- The Committee also has responsibility for the oversight of regulated subsidiaries. The Committee meets with each of the regulated subsidiary chairs on a rolling basis and has received updates on matters including board composition, governance, people matters and strategic priorities.

Martin Scicluna
Chairman and Chair of Group Nomination and Governance Committee

25 February 2021

Board and committee composition and meeting attendance 2020

As at the date of this report, the Board is composed of ten members: the Chairman, six non-executive directors and three executive directors. The table below shows the attendance at the scheduled Board and Committee meetings. The Chairman also met with the non-executive directors without management present four times during the year. Biographical information of the current directors can be found on pages 42 and 43.

	Board	A Audit	B Risk	N Nom	R Rem	I Invest
Chairman Martin Scicluna	9/9			4/4		2/2
Group Chief Executive Stephen Hester	9/9					
CEO, UK & International Scott Egan	9/9					
Group Chief Financial Officer Charlotte Jones	9/9					
Independent non-executive directors						
Senior Independent non-executive director[2] Martin Strobel	9/9	6/6	5/5	4/4	4/4	2/2
Alastair Barbour[1]	9/9	4/4	4/4	2/3		2/2
Sonia Baxendale	9/9	6/6				2/2
Clare Bousfield[2]	7/7	4/4	1/1	1/1		
Kath Cates	9/9	6/6	5/5	4/4	4/4	
Enrico Cucchiani	9/9		5/5		4/4	

NOTES:

1. Alastair Barbour stepped down from his position as GAC Chair on 23 October 2020. At the same time, he ceased to be a member of GAC, BRC and NomCo. Alastair continues to serve on the Board and as a member of GIC. Alastair was unable to attend the September NomCo meeting owing to time zone clashes.
2. Clare Bousfield joined the Board and became a member of GAC on 1 April 2020. Clare assumed the role of GAC Chair when Alastair Barbour stepped down from this role on 23 October 2020. Clare also became a member of BRC and NomCo from this date.

Remuneration Committee Chairman's Letter

Index to the report

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

2020 was an extraordinary year, with the Covid-19 pandemic and the announcement of a cash bid for the Company. The Committee has reviewed its remuneration decisions with particular sensitivity to this context, as well as its normal stakeholder lenses, to ensure they are justified and proportionate. Notably, RSA has reinstated its dividend and shareholders will receive the value of the suspended 2019 final dividend as explained below, while Government employee furlough aid has not been used.

2020 performance and context

RSA is reporting an excellent set of results, delivered in a year of great external challenges. Additionally the success over the last seven years of building the company's underwriting performance to record levels has been reflected in the recommended bid for RSA at a 52% premium, delivering the prospect of highly attractive shareholder value.

Although Covid-19 had a negative overall impact on the business, the financial results show an exceptional Return on Tangible Equity driven by strong underwriting performance.

Key indicators include:

- Underlying EPS 51.2p, up 15%,
- Underlying pre-tax profit £718 million (2019: £624 million),
- Group underlying Return on Tangible Equity at 18.2% (2019: 16.0%),
- Combined operating ratio at 91.1% (2019: 93.6%),
- Solvency II coverage ratio at 170% (2019: 168%).

RSA's total shareholder return for 2020 is 21%, versus -9% for the SXIP Index comprising of UK and European listed insurers.

Covid-19 has challenged all businesses. However, actions taken by management have ensured that the company has dealt effectively with the challenges presented. These actions have included:

- Ensuring the continuity of our customer contact channels.
- Taking measures to maintain our claims supply chains.
- Identifying ways to support affected customers across our different geographies.
- Supporting the FCA's legal test case on business interruption insurance to provide clarity of cover, and committing to paying claims promptly in line with our policy promises while protecting all stakeholders against unaffordable widening of cover.
- Engaging in industry initiatives on future pandemic coverage options and voluntary relief funds.
- Launching a community grant programme to provide funding to local charities and social organisations in the UK.
- Enabling our people to provide service to customers safely and effectively from their homes, including reviewing our HR policies on sick pay and caring for dependants, and providing additional well-being resources.
- Preserving the great majority of jobs and not taking support from the Government via furlough schemes or other routes.

While the 2019 final dividend was postponed in line with regulatory guidance to insurers, dividends were restarted in September when the company announced an interim 2020 dividend of 8.0p per Ordinary Share (up 7%). The value of the suspended 2019 final dividend is reflected in Intact and Tryg's cash offer to RSA shareholders, and the company has stated its intention to catch up the payment should the bid not complete. The financials and capital ratios for 2020 are presented on that basis.

Linking pay with performance

Taking account of the excellent performance and the efforts to support stakeholders, the Group CEO, CFO and CEO UK & International will receive total remuneration of £4.9m, £1.8m and £2.2m respectively (2019: £4.0m, £1.5m and £2.0m, where the CFO figure is for service from 31 July – 31 December 2019 only). This includes:

- 2020 Annual Bonus Plan awards of 100%, 100% and 70% respectively, half of which are deferred into shares for three years, and
- 2018–20 long-term incentive award vesting at 81% of the maximum.

The long-term incentive vesting is an estimate assuming the bid from Intact and Tryg to acquire RSA completes. The Committee is mindful that the company's Total Shareholder Return has been affected by the bid announced in November 2020, and therefore, it has used its discretion to delay the final calculation for the long-term incentive TSR condition until the bid outcome is confirmed to ensure there is no unjustified benefit in the resulting vesting level.

The Committee reviewed these outcomes through a number of lenses in order to be satisfied that they fairly reflected and were proportionate to performance:

- Incentive targets were not relaxed or adjusted for Covid-19 despite its negative impact on the Company's results. The incentive performance targets were similarly achieved both with and without the value of the 2019 final dividend.
- A downwards adjustment was applied to the Business Scorecard element of the UK and International bonus as the Committee took account of the impact of restructuring and portfolio exits, as set out on page 62.
- In addition to the shareholder experience, it considered the awards for other RSA employees, customer outcomes and ESG factors, and 'how' performance had been delivered in the context of RSA's business values, which it considered aligned to culture.
- A risk report prepared for the Committee by the Group Chief Risk Officer was also considered. The Committee concluded that the incentive outcomes were fair and appropriate taking into account the formulaic outturn and the experience of wider stakeholders in the round, and that there were no issues warranting the application of malus or clawback.

Given the above, the Committee's view was that the operation of the Remuneration Policy worked as intended in terms of performance and quantum within the ranges predicted.

Planning for 2021

In 2021 we will maintain the same simple and clear remuneration offering, except no RSA 2021 long-term incentive grants will be made, unless the bid should not complete.

Our 2021 Annual Bonus Plan will focus on shareholder returns and profit alongside risk and capital management, controllable expenses, attritional loss ratios, costs, strategic improvement, the customer franchise, ESG and people. Measures will be consistent with the previous year. Should the bid to acquire RSA complete as expected, the timing will influence the 2021 Annual Bonus Plan and the Committee will use its discretion under the approved Directors' Remuneration Policy to react to a shorter period, in consideration of an appropriate outcome.

There will be no increases to directors' salaries in the 2021 review.

Stephen Hester and Scott Egan will continue to voluntarily reduce the pension contribution rates they receive. Stephen's rate will reduce from 24% to 21% of salary from 1 April 2021, and is due to reduce to 18% from 1 April 2022 and 10% from 31 December 2022 (aligning with the 10% rate for new UK-based colleagues). Scott's rate will reduce from 14% to 13% from 1 April 2021, 12% from 1 April 2022 and 10% from 31 December 2022.

Shareholding levels

Stephen and Scott's shareholding levels are 536% and 250% of salary respectively, exceeding their targets of 300% and 200%. Charlotte Jones is progressively building her holding following her appointment in July 2019, and all vested awards must be retained post-tax until the required level is reached.

Workforce remuneration and engagement

The Committee continued to monitor workforce remuneration throughout its activity in the year.

This included oversight of salary increase budgets, bonus funding levels and internal pay relativities to ensure alignment of executive and workforce reward, as well as reviewing and affirming the approach to long-term incentives beyond executives. The Committee also reviewed the all-employee share plan participation levels, the UK pension updates made in light of regulatory change and workforce pay and benefits protections put in place as part of the bid discussions.

Employee pay ratios are shown on page 71. These reflect the job roles in those parts of our business located in the UK, as per the required calculation. Similar factors are used in setting pay across the workforce, including performance, market positioning, job size and content, and individual experience. The Committee is satisfied that the remuneration in this report properly reflects these factors and is therefore appropriate.

Committee members have had dialogue with employees, for example through attending town hall meetings, and have received employee feedback on pay-related decisions and the wider actions taken to support our people during the pandemic. Through our internal social media network, I have shared information about the alignment of executive and employee reward, which provides an additional route for individuals to feed back their views.

Diversity and inclusion

In line with the broader approach of the Board, the Committee considers workforce remuneration matters and HR decisions through a diversity lens.

We voluntarily published our Gender Pay Gap figures this year, despite the pause in the statutory reporting obligations, as we support the transparency that this provides. The mean and median pay gaps show an improvement compared to the prior report, and our actions to keep up progress in this area are detailed at www.rsagroup.com/responsibility. We are using the lessons learnt on gender pay to help build ways to collect data on ethnicity in support of our wider diversity and inclusion efforts.

Shareholder engagement

As part of its efforts to promote clarity, in early 2020, the Committee engaged with RSA's leading investors and corporate governance bodies and the feedback received was taken into account in finalising the review of the Directors' Remuneration Policy.

We also engaged prior to the 2020 AGM on remuneration and governance more broadly, including our initial response to Covid-19.

I am grateful for the support shown for our Policy and Remuneration Report at last year's AGM, and welcome any comments you may have going forward.

Finally, I would like to extend my thanks to my fellow Committee members for their contribution and insights.

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

25 February 2021

Note:
Financial measures, including ROTE, PBT and COR relate to the Group's underlying performance which is the basis on which the Group's plans and targets were set by the Board, in common with practice in prior years and which excludes exits.

Annual Report on Remuneration

1. Introduction

This Annual Report on Remuneration details how the approved Remuneration Policy has been implemented for Directors in the financial year ended 31 December 2020, and how the Group intends to implement its Policy in 2021.

2. The Group Remuneration Committee

Purpose

The Committee determines the remuneration and contractual terms for the Executive Directors, Executive Committee and the Chairman (who are detailed on pages 42 to 45).

The decisions the Committee makes are intended to promote the ongoing success of the Group, whilst upholding the interests of shareholders, regulators, customers, employees and other stakeholders. Consequently, it pays close attention to the Group's risk management policies, ensuring that these are considered alongside other relevant information so that its actions are balanced, appropriate and support the Group's strategy.

The Committee reviews the Group's employee remuneration arrangements overall, and the alignment of incentives with culture, and takes these into account in its decision-making.

The Committee operates within an agreed set of terms of reference, which it reviews annually. A copy of these terms can be viewed on the Group's website at: www.rsagroup.com/termsofreference or alternatively a paper copy can be requested in writing from the Group Company Secretary.

Members

The Committee comprises a number of independent Non-Executive Directors. The Committee's members in 2020 were: Kath Cates (Chair), Enrico Cucchiani and Martin Strobel.

The number of meetings attended by each Director is shown on page 55.

Attendees

At the invitation of the Committee, the Chairman, Group Chief Executive and designated representatives from functions within the business attend meetings where relevant to advise on Group strategy, risk, performance, and HR policies and practices, and support the Committee's work. These Committee attendees during 2020 included the Group HR Director, Group General Counsel and Company Secretary and Group Reward Director. Additional written input was provided by the Group Chief Risk Officer.

To avoid conflict of interest, individuals are not part of discussions of their own remuneration.

Advisers

PricewaterhouseCoopers (PwC) is appointed by the Committee as its independent adviser. It was selected following a market tender exercise. During 2020, PwC also provided advice and consultancy services across the Group globally on matters including data and analytics technologies, regulatory risk and compliance, operations strategy, IT risk and governance, direct and indirect tax and compliance. PwC is a member of the Remuneration Consultants' Group and a signatory to its Code of Conduct. In addition, the Committee has satisfied itself that the advice it receives is objective and independent as PwC has confirmed there are no conflicts of interest arising between it, its advisers and RSA. The fee paid for services to the Committee in the year was £126,252 excluding VAT, based on a fixed fee for a defined scope of work and hourly rates for advice in respect of the impact of the bid for RSA on Executive Director remuneration.

Meetings held in 2020

In 2020, the Committee met on six occasions (four scheduled and two additional) and the table below summarises the matters it discussed.

Item	Jan	Feb	May	Sep	Oct	Nov
· Testing of Annual Bonus Plan 2019 and LTIP cycle 2017–19 performance conditions; and determination of outcomes	•	•				
· Approval of 2020 incentive plan performance conditions, and long-term incentive grant 2020–22		•				
· Review of executives' personal goals for 2020, base salaries and Chairman's fee	•	•				
· Approval to operate all-employee share plans (Sharesave and Sharebuild) and off-cycle long-term incentive grant			•			
· Review/update on wider workforce engagement and remuneration, including gender pay gap, pay ratios and impact of Covid-19	•	•	•	•	•	•
· Review of Committee terms of reference and effectiveness	•			•		
· Review of LTIP participation, share grants made, all-employee share plan participation, and dilution levels			•	•		
· Review of Directors' Remuneration Report and Solvency II disclosures	•	•	•			
· Update on the performance of the Annual Bonus Plan 2020 and current long-term incentive cycles		•		•		
· Update on corporate governance and market developments			•	•		
· Update on shareholder engagement	•	•	•			
· Employee matters related to bid for RSA					•	•

3. Executive Director total remuneration 2020 (audited)

The table below sets out the Executive Directors' total remuneration single figures. Non-Executive Director fees are detailed on pages 74 to 75.

	Salary		Taxable benefits[1]		Bonus[2]		LTIP		Pension related benefits		Other remuneration		Total		Total fixed remuneration		Total variable remuneration	
(£'000)	**2020**	2019	**2020**	2019	**2020**	2019	**2020[3]**	2019[4]	**2020[5]**	2019	**2020**	2019[6]	**2020**	2019	**2020**	2019	**2020**	2019
Scott Egan[7]	568	557	23	23	640	786	893	521	81	84	–	–	2,205	1,971	672	664	1,533	1,307
Stephen Hester[8]	1,049	1,028	53	69	1,686	1,538	1,895	1,105	259	285	–	–	4,942	4,025	1,361	1,382	3,581	2,643
Charlotte Jones[9]	508	210	19	13	816	280	377	194	51	21	–	754	1,771	1,472	578	244	1,193	1,228
Total	**2,125**	**1,795**	**95**	**105**	**3,142**	**2,604**	**3,165**	**1,820**	**391**	**390**	**–**	754	**8,918**	**7,468**	**2,611**	**2,290**	**6,307**	**5,178**

Notes:

1. Taxable benefits: Stephen Hester received a car allowance and the use of a car and driver service which totalled £25,818 (2019: £43,904), Scott Egan received a car allowance of £15,000 (2019: £15,000), Charlotte Jones received a car allowance of £15,000 (2019: £6,304), and each of the Executive Directors were provided with medical benefits and life cover.
2. Bonus: Awards in respect of performance measures relating to the financial year shown, as described on pages 60 to 65. Half of the bonus shown is awarded in Deferred Bonus Shares which vest three years from the date of grant, and are subject to malus adjustment.
3. LTIP 2020: Estimated value of Performance Shares and accrued dividend equivalents under the 2018–20 LTIP cycle due to vest on 2 March 2021 using an average share price over the last quarter of 2020 of £5.8346. Reflects the performance conditions having been met to the extent noted on pages 65 to 67. In the case of the relative TSR condition, the estimate assumes the bid for RSA completes, however a final calculation of this element of the vesting will be made once the bid outcome is known.
4. LTIP 2019: Actual value of Performance Shares and accrued dividend equivalents under the 2017–19 LTIP cycle that vested on 3 March 2020. The vesting was as disclosed in the 2019 Annual Report and Accounts on pages 92 to 93. Valuation has been restated using the vesting date share price of £5.22.
5. Pension 2020: Scott Egan received a taxable cash allowance of 15% of base salary until 1 April 2020, when it was voluntarily reduced to 14%, and it will be further reduced to 13% from 1 April 2021, 12% from 1 April 2022 and 10% from 31 December 2022. Stephen Hester's taxable pension cash allowance has been voluntarily reduced from 30% of salary to 27% of salary from 1 April 2019 and to 24% from 1 April 2020. It will voluntarily reduce to 21% from 1 April 2021, 18% from 1 April 2022 and 10% from 31 December 2022. Charlotte Jones received a pension benefit of 10% of salary, which is aligned to that for other new UK-based employees. This was split between contribution to the RSA Pension Scheme and taxable cash allowance until 31 July 2020. Charlotte opted out of the RSA Pension Scheme on 31 July 2020, after which she received the 10% of salary wholly in the form of a taxable cash allowance. The aggregate value paid by the Company into the RSA Pension Scheme (a defined contribution plan) for the Executive Directors in 2020 was £4,813 (2019: £3,479). No Executive Director has a prospective entitlement to a defined benefit pension in respect of their service with RSA.
6. Other remuneration 2019: The figure for Charlotte Jones reflects compensatory awards made to replace those forfeited on leaving her previous employer, as detailed on page 94 of last year's report.
7. Scott Egan was appointed as an Executive Director effective 1 October 2015. In 2020 he received an annual base salary of £559,866 from 1 January to 31 March. His salary increased by 2% effective 1 April to £571,063.
8. Stephen Hester was appointed as an Executive Director effective 5 February 2014. In 2020 he received an annual base salary of £1,033,352 from 1 January to 31 March. This increased by 2% effective 1 April to £1,054,019.
9. Charlotte Jones was appointed as an Executive Director effective 31 July 2019. In 2020 she received an annual base salary of £500,000 from 1 January to 31 March. This increased by 2% effective 1 April to £510,000. Remuneration for her period as a Non-Executive Director of RSA prior to this in 2019 is shown in the table on page 74.

4. Components of variable remuneration (audited)

Annual Bonus Plan 2020

The Executive Directors' 2020 Annual Bonus Plan consisted of financial and business targets aligned to the Group's operational plans. In the case of the Group CEO and CFO these included: Group underlying Return on Tangible Equity (ROTE), Group underlying profit before tax (PBT), Group combined operating ratio (COR), a Business Scorecard and role-specific personal objectives. The measures for the CEO UK & International emphasised the performance of his region as well as the Group. The maximum bonus opportunity was 160% of salary, of which half of any award is deferred into RSA shares for three years. Bonus awards are subject to malus and clawback provisions. In determining 2020 bonus awards under this Plan, the Committee considered how goals had been met and took account of key risk factors.

The overall bonus calculations are shown in the table below, and details are set out on the following pages.

Targets were not reduced for Covid-19 despite its negative impact on Group results.

		Scott Egan	Stephen Hester	Charlotte Jones
Bonus 2020 performance measures	Weighting	CEO UK & Intl	Group CEO	Group CFO
Group underlying ROTE, Group underlying PBT, Group COR	40%	–	40%	40%
Group underlying ROTE, UK & Intl Underwriting Result, UK & Intl COR		20%	–	–
Business Scorecard	30%	20%	30%	30%
Personal Scorecard	30%	30%	30%	30%
Total % of maximum	**100%**	**70%**	**100%**	**100%**
Total (% of annual base salary)		**112%**	**160%**	**160%**
Bonus receivable[1]		**£639,591**	**£1,686,430**	**£816,000**

Note:
1. Half of the bonus is awarded in Deferred Bonus Shares which vest three years from the grant date, and are subject to malus adjustment.

Financial Performance (40% weighting)

The measures applicable to the Group CEO and CFO for this component of the bonus plan are shown in the following table:

Bonus Financials: Group CEO and CFO	2019 Actual[1]	2020 Target[1]	2020 Actual[1]	Weighting (% of maximum)	Achievement (% of maximum)
Group underlying ROTE	16.0%	Threshold: 13.1% Target: 15.4% Maximum: 17.7%	18.2%	20%	20.0%
Group underlying PBT	£624m	Threshold: £519m Target: £610m Maximum: £702m	£718m	10%	10.0%
Group COR	93.6%	Threshold: 94.2% Target: 93.2% Maximum: 92.2%	91.1%	10%	10.0%
Total (% of maximum)				**40%**	**40.0%**

The measures applicable to the CEO UK & International for this component of the bonus plan are shown in the following table:

Bonus Financials: CEO UK & International	2019 Actual[1]	2020 Target[1]	2020 Actual[1]	Weighting (% of maximum)	Achievement (% of maximum)
Group underlying ROTE	16.0%	Threshold: 13.1% Target: 15.4% Maximum: 17.7%	18.2%	20%	20.0%
UK & International Underwriting Result	£144m	Threshold: £114m Target: £153m Maximum: £191m	£90m	10%	0.0%
UK & International COR	95.0%	Threshold: 96.0% Target: 94.5% Maximum: 93.0%	96.7%	10%	0.0%
Total (% of maximum)				**40%**	**20.0%**

Note:
1. Financial measures in these tables relate to the Group's underlying performance which is the basis on which the Group's plans and targets were set by the Board, in common with practice in prior years. It is also the primary basis on which the Group was managed and its activities reported to shareholders. The Committee also considers all other financial measures to determine whether they should give rise to any adjustments to pay outcomes and has applied a downward adjustment to the UK&I Business Scorecard component of the bonus plan, as set out in the following section.

Business Scorecard (30% weighting)

The Business Scorecard focuses on key areas of management activity essential to the success of the Company spanning Underlying Financial Performance, Risk and Resilience (including capital) and Business Sustainability (including customer franchise). Achievement is measured against a range of objective measures, with the overall outcome being determined using judgment in the round. Absent unusual results, the highest Scorecard weightings are accorded to the Underlying Performance financial measures and as a result the majority of annual bonus awards overall are driven by financial measures. The Scorecard outcome will vary from the headline financial metrics' outcome if these are over or under-representative of the underlying actions of management and their results.

The Scorecard applicable to the Group CEO and CFO is shown in the following table.

Bonus Business Scorecard: Group CEO and CFO	2019 Actual[1]	2020 Target[1]	2020 Actual[1]	Weighting (% of max)	Achievement
Underlying Performance:					
Group controllable expense ratio	21.3%	22.1%	21.9%		
Group controllable expenses	£1,354m	£1,387m	£1,361m		
Group attritional loss ratio[2]	49.4%	48.9%	44.7%		
Strategic plan initiatives	–	See narrative	See narrative		
Risk and Resilience:					
Solvency II coverage ratio	168%	≥130%	170%	**30%**	**30%**
TNAV:NWP	45%	≥35%	53%		
S&P credit rating	A stable	≥A– stable	A stable		
Capital actions and broader risk management	–	See narrative	See narrative		
Business Sustainability:					
Group policy/premium retention	80%	Broadly in line with 2019	80%		
Group top line growth	£6,400m	£6,339m	£6,220m		
Customer franchise	–	See narrative	See narrative		

Notes:
1. As note 1 of bottom tables on page 60.
2. Defined excluding Claims Handling Expenses (which are part of the expense measure).

- Within the Underlying Performance heading, the financial indicators of controllable expenses, controllable expense ratio, and attritional loss ratio were collectively significantly better than target. The committee considered the impact of UK exits and restructuring charges but at RSA Group level this was more than offset by the outperformance of the underlying financial measures leaving the Group Scorecard assessment still as above. The raw financials were complemented by good achievements across the strategic plan initiatives – in particular, the operational resilience in response to Covid-19 and continued underlying improvement in underwriting across all businesses, most notably in Denmark.
- On Risk and Resilience, Solvency II coverage was maintained at the top of the targeted range. This was the case including and excluding the 2019 final dividend, which was suspended as the Board took account of regulatory and reputational sensitivities to the short-term use of capital early in the Covid-19 pandemic. Dividends resumed with the 2020 interim and the company stated its intention to catch up the payment should the bid to purchase RSA not complete. Internal capital actions included the obtaining of regulator approval to apply Volatility Adjustment in the Group's capital model, which reduces exposure to credit spread movement. The internal risk and control environment was rated positively.
- On Business Sustainability, good customer service levels were maintained through the pandemic. This included actions to settle claims promptly and fairly, as well as sustaining claims supply chains, and providing a range of customer support measures across the Group's geographies, ranging from coverage adjustments to capping of rates and tailored payment plans. The company has been a key contributor to industry initiatives exploring future pandemic coverage options and voluntary relief funds.

The Committee examined each performance outcome in the round and assessed the Scorecard as strongly met both including and excluding Covid-19 impacts with an outcome of 30/30. It determined that no adjustment was required.

The Scorecard for the CEO UK & International is shown in the following table.

Bonus Business Scorecard: CEO UK & Intl	2019 Actual[1]	2020 Target[1]	2020 Actual[1]	Weighting (% of max)	Achievement
Underlying Performance:					
UK & Intl controllable expense ratio	22.5%	22.7%	23.1%		
UK & Intl controllable expenses	£650m	£637m	£632m		
UK & Intl attritional loss ratio[2]	43.5%	42.8%	40.1%		
Strategic plan initiatives	–	See narrative	See narrative		
Risk and Resilience:					
Solvency II coverage ratio	168%	≥130%	170%	**30%**	**20%**
TNAV:NWP	45%	≥35%	53%		
S&P credit rating	A stable	≥A– stable	A stable		
Capital actions and broader risk management	–	See narrative	See narrative		
Business Sustainability:					
UK policy/premium retention	76%	Broadly in line with 2019	80%		
UK & Intl top line growth	£2,864m	£2,838m	£2,728m		
UK & Intl customer franchise and conduct	–	See narrative	See narrative		

Notes:
1. As note 1 of bottom tables on page 60.
2. Defined excluding Claims Handling Expenses (which are part of the expense measure).

- Underlying Performance was ahead of target in terms of controllable expenses and attritional loss ratio, while the controllable expense ratio was below target thus driving strong achievement though less than the Group overall. As a result, the impact of UK restructuring costs and exits considerations had a more visible result on the UK&I scorecard. Strategic initiatives have tracked in line with targets overall, including good progress on the Underwriting and Pricing workbench and Personal Lines roadmap, while digital transformation work in Claims continued albeit on a longer ramp-up due to Covid-19.
- In Risk and Resilience, capital reflected the Group Scorecard. Key risk areas in the operational response to the pandemic were addressed well.
- On Business Sustainability, UK customer retention was up on the prior year, with increasing Net Promoter Scores in Personal Lines. Total premiums were lower, with continued focus on underwriting quality. Across the region, the customer franchise remained stable. RSA launched its own community grant programme to provide funding to local charities in the UK impacted by Covid-19 and announced a new partnership with the Royal Society for the Prevention of Accidents.

The Committee assessed the Scorecard, driven by its financial measures. In using its judgment however, the Committee also took account of the impact of restructuring and portfolio exits on some metrics in the year, and on customers during the UK business interruption uncertainties, and applied a downwards adjustment, resulting in a Business Scorecard outcome of 20/30.

Personal Scorecard (30% weighting)

This component focuses on personal performance vs the priorities set by the Board for the Executive Directors in 2020. The Remuneration Committee considers their performance holistically in relation to the development and driving of strategy, financial performance, appropriate risk management, customer and people initiatives (both what was delivered and how). The Committee's assessment for each Executive Director was as shown in the following tables:

Bonus Personal Scorecard: Scott Egan, CEO UK & International	Progress	Weighting (% of maximum)	Achievement (% of maximum)
Scott's objectives included: · **Strategy:** Develop and implement UK & International region plans, responding to best-in-class challenge and competitor benchmarks.	· Ensured major capability improvement programmes continued to be delivered, with emphasis on Commercial Lines pricing & underwriting and claims. Upgrade in cyber and IS resilience. · Successfully completed the initial UK cost programme and commenced work on the second phase to accomplish target of <20% controllable expense by 2022. · Excellent performance in International businesses, with European turnaround complementing existing strong performance in Ireland and Middle East. · Sustained growth momentum in key areas including region's Commercial Lines business and MORE TH>N Household. · Actions to optimise UK motor businesses in Personal and Commercial Lines.		
· **Financial delivery:** Drive achievement of financial targets, focused on large loss underwriting, productivity and operational efficiency.	· Financial resilience in challenging circumstances, UK&I Underwriting Result of £90m and UK&I COR of 96.7% (COR 94% excluding impact of Covid-19). · Grip on pricing and underwriting. Meaningful improvements in Commercial Lines capabilities delivered through emphasis on getting the 'Brilliant Basics' right. Industrialisation of underwriting processes via 'workflow' implementation and pricing tool streamlining. Responsive and timely actions taken to address issues that arose during the year. · Rate increases ahead of plan across major UK portfolios.		
· **Risk profile:** Operate to good standards of risk/regulatory control, with focus on IT, risk and audit outcomes.	· Strong governance and customer focus throughout Covid-19. · Good progress on underwriting, and risk and control culture.	**30%**	**30%**
· **Stakeholders/Customer:** Continue to build strong stakeholder relations and advance initiatives to elevate customer service in the region.	· Overall increases in UK customer retention and trust (NPS) scores. · Continued to embed the UK's purpose that sets a revitalised 'best-in-class' customer ethos. Proactive leadership around customer/broker relationships. · As part of Covid-19 response, MORE TH>N initiative to give NHS workers priority service, free courtesy cars and extended cover for home emergencies.		
· **Leadership:** Embed accentuated performance culture. Shape and support Environmental, Social & Governance (ESG) initiatives including diversity and inclusion.	· Continued development of business leadership team. Key appointments including regional CFO and Chief Underwriting Officer. · Drove employee welfare, safety and operational resilience in response to Covid-19, e.g. facilitation of remote and flexible working, review of dependent carer/compassionate leave policies, mental health toolkit. Employee surveys show this has been very well received. · Chaired the Group Corporate Responsibility Committee responsible for outlining RSA's Climate Change and Low Carbon Policy. · Sponsored diversity and inclusion in UK & International, e.g. signing of the Business in the Community Race at Work Charter, supporting RSA Balance on gender inclusion/networking, progress towards aim of doubling the number of apprentices to c.500 by 2022.		

Bonus Personal Scorecard: Stephen Hester, Group CEO	Progress	Weighting (% of maximum)	Achievement (% of maximum)
Stephen's objectives included: · **Strategy:** Drive implementation and evolution of the strategic plan, including digital/data and customer initiatives, as part of the Group's 'best-in-class' ambitions.	· Exceptional and effective leadership of the bid negotiations with Intact and Tryg leading to a 52% premium offer. · 2020–22 strategic plan agreed with the Board, consistent with progress and ambition. · Sustained the performance of portfolios that generated superior returns and implemented performance improvement plans, e.g. 14 points improvement in the Danish combined ratio. · Re-insurance strategy effectiveness. Group volatility cover provided good protection from Covid-19 losses and generated recoveries greater than the annual premiums paid. · Led from the front to prioritise service to customers, the safety of RSA's people and resilient operations during the year.		
· **Financial delivery:** Deliver new operating plan and manage company to meet planned targets with focus on P&L targets, capital and balance sheet, costs and underwriting improvements.	· Delivery of financial improvements as set out above, e.g. Group underlying PBT of £718m and record Group underwriting result of £550m. · Significant improvement in the attritional loss ratio across all regions (both including and excluding the estimated impacts of Covid-19), demonstrating continued underlying progress on improving business fundamentals. · New cost programmes underway in each region.		
· **Risk profile:** Ensure good control standards – regulatory and financial. Driving improvements where needed.	· Prudent capital management approach, sustaining "A stable" S&P credit rating and strong Core Tier 1 capital. · Solvency II Coverage Ratio at top of range (on all bases), despite Covid-19-related market volatility in Q1. · Furthered rebalancing of portfolio to divest where exceeding risk appetite.	**30%**	**30%**
· **Stakeholders/Customer:** Lead good relationships with external stakeholders, and initiatives to sustain the importance of customer in RSA.	· Continued to lead the importance of customer focus across RSA with 80% retention. · Continued to proactively manage stakeholder relationships, e.g. >220 investor meetings in the year.		
· **Leadership:** Effective leadership of the Group executive, including succession and development plans. Advocacy for ESG initiatives across the Group, including diversity and inclusion.	· Group executive succession plans reviewed. · Minimised business disruption from Covid-19 across the regions. · Carbon emissions reduced by 34.7% per FTE (2019: 15.3% per FTE reduction). Embedded new policy on fossil fuels – 62% of underwriting portfolio for energy production is low carbon (vs a target of >50%, ahead of the IEA's Sustainable Development Scenario targeted energy mix for 2040). · Championed progress on diversity & inclusion. 35.3% representation of women in the Management Group (above the 33% minimum targeted by 2020; 2019: 34.6%). Firm-wide messaging for Black Lives Matter.		

Bonus Personal Scorecard: Charlotte Jones, Group CFO	Progress	Weighting (% of maximum)	Achievement (% of maximum)
Charlotte's objectives included: · **Strategy:** Develop the Group's three-year plan to a high standard. Influence strategic decision-making across regional businesses including plans to fix productivity/cost imbalances.	· Strong management of the bid negotiations and due diligence, which facilitated the firm offer from Intact and Tryg with a 52% premium. · Developed the 2021–23 plan at macro and granular level, with optimum balance of performance and pragmatism to facilitate best-in-class ambitions. · Increased proactive engagement and challenge with the businesses to influence strategic decisions, building on the steps taken in 2019. Key driver regarding improved cost plans in UK Personal Lines, Denmark and Ireland. · Took a leadership role to develop a tangible Group-wide approach in the data space, leveraging the different activities across the Group. · Oversight of Group IT agenda in terms of cost, capability and risk.		
· **Financial delivery:** Optimise Group performance vs plan, investment returns within risk policy and group corporate structure.	· Delivery of Group performance vs plan, e.g. Group underlying PBT of £718m and Group underwriting result of £550m. · Finance function operated >6% below budget. · Steered the IFRS 17 project for timely and uncomplicated delivery.		
· **Risk profile:** Ensure a high standard of financial control and risk management, in terms of judgment, reporting and compliance, across the Group.	· Good capital and balance sheet monitoring. · Effective risk management actions across investment, actuarial and pensions. · Enhancements in financial analysis and reporting in Scandinavia and Canada, including accounting and reconciliations.	**30%**	**30%**
· **Stakeholders/Customer:** Build and maintain strong relations with Board and external stakeholders, including investors, rating agencies, regulators, brokers and auditors.	· Sustained high-quality investor relations, including >130 investor meetings. · Led rating agency relationships effectively, holding quarterly meetings with Moody's and S&P. · Positive feedback from Audit Committee and Board. · Continued to develop external network within insurance industry.		
· **Leadership:** Develop bench strength, succession plans and capability improvements across Finance function. Contribute to ESG goals.	· Increased Finance function proactivity on identifying opportunities and solving business issues. · Functional succession plans reviewed. Supported the coaching and development of regional finance teams. · Contributed to embedding of the diversity and inclusion goal of increasing representation of women in Management Group roles.		

Long-term incentive awards vesting from 2018–20 cycle

The long-term incentive awards in the 2018–20 cycle will partially vest in 2021, based on the achievement of the three performance conditions described below. These are aligned with, but different from, the annual bonus measures. Awards take the form of Conditional Performance Shares and the targets are set for a three-year period at the start of the cycle, as opposed to being set annually for bonus targets.

The overall vesting outcome is shown in the table below, and details are set out on the following pages:

Long-term incentive performance measures 2018–20	Threshold target: 25% vesting	Maximum target: 100% vesting	Actual	Weighting	Vesting (% of maximum)
Relative TSR[1]	RSA's TSR is equal to the unweighted index of comparators	RSA's TSR outperforms the unweighted index of comparators by at least 7% per annum or exceeds the TSR of the highest performing company in the index	Outperformed index by 18.8% (RSA TSR 22.9% vs. Index of 8.4%)	33.33%	30.11%
Group underlying ROTE[2]	12%	18%	15.6%	33.33%	17.91%
Business Scorecard	See narrative	See narrative	See narrative	33.33%	33.33%
Total				**100%**	**81.35%**

Notes:
1. Relative TSR index of comparators includes: Admiral, Allianz, Aviva, Chubb, Direct Line, Gjensidige Forsikring, Hiscox, Intact, MAPFRE, QBE, Topdanmark, Tryg and Zurich. A straight-line calculation is applied to determine the portion of awards that vest for performance between the threshold and maximum targets. The result shown is an estimate assuming the bid for RSA completes. The final calculation will be made by the Remuneration Committee once there is clarity in this regard.
2. Group underlying ROTE is calculated on a three-year average basis. A straight-line calculation was applied to determine the portion of awards that vest for performance between threshold and on-target, and between on-target and maximum. The average required for on-target vesting (62.5% vesting) in this cycle was 16.7%.

Relative Total Shareholder Return (33.33% weighting)

RSA's TSR performance (which combines share price and dividend returns) is measured against an index of comparators. As the bid for RSA announced on 18 November 2020 fell within the performance period, it has impacted RSA's TSR. Therefore the Committee has used its discretion under the PSP rules and approved Policy to delay the final calculation for the TSR condition until there is clarity as to whether the bid will complete. This is to avoid any risk of an unjustified gain, i.e. the TSR outcome will only benefit from the bid if shareholders receive the benefit of the bid completing. The estimate provided above is on the basis that the bid completes.

Group underlying ROTE (33.33% weighting)

The Group underlying ROTE three-year average achieved was 15.6%. The 12–18% target range was set 1% point wider either side of RSA's stated mid-term goal of 13–17%, as communicated at the start of 2018. The average required for an on-target vesting (62.5% vesting) was 16.7%, a level significantly in excess of the Group's cost of equity. This average was set based on RSA's original operating plan for the period, and therefore was not automatically the mid-point of the range.

Business Scorecard (33.33% weighting)

The Business Scorecard focuses on key underlying performance indicators relevant to RSA's business. The Scorecard differs from that applied to the Annual Bonus Plan in timescale (three years vs one year), and reflects targets set at the beginning of the three-year period rather than set annually. In order to avoid conflicting signals, it has similar headings to the bonus Business Scorecard, however the assessment outcome is geared to the medium term and therefore differs.

The vesting outcome on this element was determined by the Committee assessing RSA's progress during the three years in the round, consistent with the methodology applied in previous years. The Scorecard indicators are shown in the following table.

Long-term incentive Business Scorecard	Key performance indicators	Target[1]	Actual[1]		
Strategic priorities:			2018	2019	2020
· **Underlying Performance**	Group controllable expense ratio	≤21.2% average	20.8%	21.3%	21.9%
	Attritional loss ratio[2]	Reduction to ≤49.6% in 2020	50.0%	49.4%	44.7%
				2018–20	
	Total Group controllable expenses	£4,311m three-year cumulative		£4,084m	
	Strategic plan initiatives	See narrative		See narrative	
· **Risk and Resilience**			2018	2019	2020
	Solvency II coverage ratio	≥130%	170%	168%	170%
	TNAV:NWP	≥35%	44%	45%	53%
	S&P credit rating	≥A- stable	A stable	A stable	A stable
	Capital actions & broader risk management	See narrative		See narrative	
· **Business Sustainability**				2018–20	
	Policy/premium retention	80%		80% each year	
	Customer franchise	See narrative		See narrative	

Notes:
1. As note 1 of bottom tables on page 60.
2. Defined excluding Claims Handling Expenses (which are part of the expense measure) and adjusted for reinsurance changes.

- In Underlying Performance, controllable expenses and attritional loss ratio were significantly better than target, indicating strong collective underlying financial control over the period. Controllable expense ratio was within 0.1% of target (primarily due to the impact of Covid-19). This performance was facilitated by the progression and execution of strategic plan initiatives over the three-years, more fully recorded in the Annual Report for each relevant period. This included key transformation programmes such as underlying improvement in underwriting across all businesses, key technology deliveries, the repositioning of UK & International and the execution of the planned portfolio exits. The operational resilience and determined reaction to the challenging circumstances of 2018 and the Covid-19 pandemic were seen as strong positives.
- On Risk and Resilience, Solvency II coverage was maintained at the top of the targeted range annually. This has been supported by the consistently strong capital actions taken, including the successful UK pension agreement, the pricing of £350m of Senior Notes to ensure liquidity pre-Brexit, the completion of the UK legacy sale and the obtaining of regulator approval to apply Volatility Adjustment in the Group's capital model. The internal risk and control environment was strengthened over the period.
- On Business Sustainability, good customer service levels were maintained throughout the period with overall retention consistently at the targeted level. Customer satisfaction levels remained generally strong over the three years, with significant increases in UK Personal Lines and Canadian Claims NPS scores particular highlights. These outcomes reflect the efforts of management to instil a customer focus in all we do, with investment in our brands and adjustments to the Group's underwriting to address market challenges. Also relevant to Business Sustainability were the Group's progress on diversity and inclusion, as well as new Corporate Responsibility/ESG initiatives.

The Committee assessed the Scorecard achievement as excellent with an outcome of 33.33/33.33.

Vesting overview

2018–20 Long-term incentive vesting	Granted number of shares	Estimated vesting number of shares	Estimated value (including dividend equivalents)
Scott Egan	173,610	141,233	£892,732[1]
Stephen Hester	368,501	299,780	£1,894,916[2]
Charlotte Jones	77,504	63,049	£377,482[3]

Notes:
1. Estimate includes the vesting 141,233 Performance Shares valued at £824,041 (of which none is attributable to share price appreciation), and accrued dividend equivalents valued at £68,691 that will be added to the awards that vest. Valued using an average share price over the last quarter of 2020 of £5.8346 and compared to a grant share price of £6.3232.
2. Estimate includes the vesting 299,780 Performance Shares valued at £1,749,103 (of which none is attributable to share price appreciation), and accrued dividend equivalents valued at £145,813 that will be added to the awards that vest. Valued as in note 1.
3. Estimate includes the vesting 63,049 Performance Shares valued at £367,867 (of which £36,658 is attributable to share price appreciation), and accrued dividend equivalents valued at £9,615 that will be added to the awards that vest. Valued using an average share price over the last quarter of 2020 of £5.8346 and compared to a grant share price of £5.2532. Awarded as part of Charlotte Jones' compensatory buyout award.
4. The Committee considered whether any discretionary adjustments in respect of the vesting were appropriate and concluded that none were required.

Long-term incentive awards granted in 2020

Conditional long-term incentive awards were made to Scott Egan, Stephen Hester and Charlotte Jones in the form of Performance Shares. Awards were granted on 6 March 2020, and scheduled to vest in 2023 subject to the satisfaction of the plan's performance conditions. These conditions are based on Relative Total Shareholder Return, Group underlying ROTE, and a Business Scorecard.

The Relative TSR target requires RSA's performance to be equal to or better than the index of comparator companies. The Group underlying ROTE target is set in line with the Group's operating plan for the three-year period.

The Business Scorecard measures a range of indicators on an underlying basis, and includes: regulatory capital ratios, credit rating, capital actions, risk management, attritional loss ratio, total controllable costs/cost ratios, key business improvement projects, customer franchise and other relevant actions related to the Company's long-term success. Achievement will be evaluated using a performance framework whereby metrics will be reviewed against their targets, together with any other aspects connected to the business performance, including material risk items. Judgment in the round will be used by the Committee to determine the level of vesting. The specific targets cannot be disclosed prospectively for commercial reasons, including price sensitivity. A performance narrative regarding the level of Scorecard vesting will be given in the Directors' Remuneration Report at the end of the performance period once the conditions have been tested, to the extent that such a report is required.

Long-term incentive performance measures 2020–22	Weighting	Threshold target: 25% vesting	Maximum target: 100% vesting
Relative TSR[1]	1/3	RSA's TSR is equal to the unweighted index of comparators	RSA's TSR outperforms the unweighted index of comparators by 22.5% compound over three years (i.e. at least 7% per annum) or exceeds the TSR of the highest performing company in the index
Group underlying ROTE[2]	1/3	12%	18%
Business Scorecard	1/3	Commercially sensitive	Commercially sensitive

Notes:
1. Relative TSR index of comparators includes: Admiral, Allianz, Aviva, Chubb, Direct Line, Gjensidige Forsikring, Hiscox, Intact, MAPFRE, QBE, Topdanmark, Tryg and Zurich. A straight-line calculation is applied to determine the portion of awards that vest for performance between the threshold and maximum targets.
2. Group underlying ROTE will be calculated on a three-year average basis. A straight-line calculation is applied to determine the portion of awards that vest for performance between threshold and on-target, and between on-target and maximum. The average required for on-target vesting (62.5% vesting) is considered commercially sensitive because it is set in line with, and therefore signals, the Group's forward plan for the period. Disclosure will be provided retrospectively following the end of the performance period.

The awards granted are set out in the table below:

	Performance Shares[1]		
Director	Basis of award	Number of shares[2]	Face value[3]
Scott Egan	200% of salary	219,369	£1,142,126
Stephen Hester	230% of salary	465,627	£2,424,244
Charlotte Jones	200% of salary	195,912	£1,020,000

Notes:
1. The performance period is three years and ends on 31 December 2022. Performance measures are Group underlying ROTE, Relative TSR and a Business Scorecard (one-third weighting each).
2. If threshold performance is achieved, 25% of the number of shares shown will vest.
3. The face value of the award is calculated as the maximum number of shares that would vest if all performance measures and targets are met at maximum, multiplied by the mid-market closing price of an RSA Ordinary Share averaged over the five business days preceding the date of grant, 6 March 2020, of £5.2064. The Committee considered the RSA share price movement prior to grant. As the price was similar to that at which the 2019 awards were granted, it determined that no adjustment to award levels was necessary to avoid windfall gains.

5. Executive Director Shareholding (audited)

The table below shows the interests of Executive Directors in Ordinary Shares of £1.00 each of the Company, including those of closely associated persons.

Director	Shares held at 1 January 2020	Shares held at 31 December 2020[1]
Scott Egan	130,738	218,640
Stephen Hester	833,664	1,021,075
Charlotte Jones	11,319	43,094

Notes:

1. As at 25 February 2021, the interests in Ordinary Shares of the current Directors have not changed since 31 December 2020.
2. Full details of all Directors' shareholdings and options to subscribe for shares are recorded in the Group's Register of Directors' Interests which is open to inspection by shareholders at the AGM and at the Company's registered office during standard business hours. The Directors had no share options that vested and remained unexercised, or were exercised in the year.

Required Shareholding

The left-hand side of table below shows the Executive Directors' Shareholding level as at 31 December 2020, calculated based on the shares they own outright, and an after tax value of share awards that are not subject to performance conditions.

In addition, Executive Directors hold unvested Performance Share interests in the Company's long-term incentive plan, which are shown on the right-hand side of the table. These provide further exposure to the RSA share price ensuring Executive Directors have significant 'skin in the game.' These awards must be retained on vesting (aside from any sold to satisfy statutory deductions) until the required Shareholding level is reached. Any awards which vest and are retained count towards the Shareholding level from that point.

Charlotte Jones commenced her role as Group CFO in July 2019 and is building her Shareholding to the target level shown below within the targeted five-year period.

	Shares counting towards required shareholding								Other unvested scheme interests	
Director	Number of shares owned outright as at 31 Dec 2020	Valuation[1]	Number of share awards not subject to performance conditions[2]	Valuation after tax[3]	Total Valuation	Shareholding level at 31 Dec 2020 (% of salary)[4]	Shareholding level to be reached (% of salary)	Has target shareholding level been reached?	Number of share awards subject to performance conditions[5]	Estimated potential additional Shareholding post-vesting (% of salary)[6]
Scott Egan	218,640	£1,057,300	145,424	£372,718	£1,430,019	250%	200%	Yes	608,394	171%
Stephen Hester	1,021,075	£4,937,720	276,750	£709,304	£5,647,024	536%	300%	Yes	1,291,363	196%
Charlotte Jones	43,094	£208,394	104,621	£268,141	£476,535	93%	200%	Building holding in targeted five-year period	463,776	146%

Notes:

1. The valuation is against an average mid-market closing price of an RSA Ordinary Share during 2020 of £4.8358.
2. Includes Deferred Bonus Shares and Restricted Shares (awarded as part of a buyout).
3. Estimates the potential additional Shareholding that could result from these awards at vesting, after statutory deductions.
4. Calculated using the gross annual base salary as at 31 December 2020.
5. Includes Performance Shares as detailed in the following table.
6. Estimates the potential additional Shareholding that could result from these awards at vesting, after statutory deductions. Assumes an on-target (62.5%) vesting level of Performance Shares. For simplicity, the dividend equivalents that are added to vesting share awards are not included here. Valued as in notes 1 and 4 above.

Scheme interests

Details of Executive Directors' existing awards in the Company's share plans are set out in the following table. The interests shown were granted under the long-term incentive plan approved by shareholders at the 2014 AGM, the Performance Share Plan (PSP).

Director	Share awards held at 1 January 2020	Share awards granted during the year[1]	Share awards vested during the year	Share awards lapsed during the year	Share awards held at 31 December 2020	Grant share price	Vesting date	Retention period end date
Scott Egan								
Deferred Bonus Shares[2,3]	60,482	–	60,482	–	–	£5.972	3 Mar 2020	–
Deferred Bonus Shares[2]	42,867	–	–	–	42,867	£6.3232	2 Mar 2021	–
Deferred Bonus Shares[2]	27,032	–	–	–	27,032	£5.198	8 Mar 2022	–
Deferred Bonus Shares[2]	–	75,525	–	–	75,525	£5.2064	6 Mar 2023	–
Performance Shares 2017–19[4]	180,216	–	90,685	89,531	–	£5.972	3 Mar 2020	3 Mar 2022
Performance Shares 2018–20[5]	173,610	–	–	–	173,610	£6.3232	2 Mar 2021	2 Mar 2023
Performance Shares 2019–21[5]	215,415	–	–	–	215,415	£5.198	8 Mar 2022	8 Mar 2024
Performance Shares 2020–22[5]	–	219,369	–	–	219,369	£5.2064	6 Mar 2023	6 Mar 2025
Total	**699,622**	**294,894**	**151,167**	**89,531**	**753,818**			
Stephen Hester								
Deferred Bonus Shares[2,3]	129,805	–	129,805	–	–	£5.972	3 Mar 2020	–
Deferred Bonus Shares[2]	79,120	–	–	–	79,120	£6.3232	2 Mar 2021	–
Deferred Bonus Shares[2]	49,894	–	–	–	49,894	£5.198	8 Mar 2022	–
Deferred Bonus Shares[2]	–	147,736	–	–	147,736	£5.2064	6 Mar 2023	–
Performance Shares 2017–19[4]	382,521	–	192,486	190,035	–	£5.972	3 Mar 2020	3 Mar 2022
Performance Shares 2018–20[5]	368,501	–	–	–	368,501	£6.3232	2 Mar 2021	2 Mar 2023
Performance Shares 2019–21[5]	457,235	–	–	–	457,235	£5.198	8 Mar 2022	8 Mar 2024
Performance Shares 2020–22[5]	–	465,627	–	–	465,627	£5.2064	6 Mar 2023	6 Mar 2025
Total	**1,467,076**	**613,363**	**322,291**	**190,035**	**1,568,113**			
Charlotte Jones[6]								
Restricted Shares	22,972	–	22,972	–	–	£5.2532	3 Mar 2020	3 Sep 2020[7]
Restricted Shares	63,426	–	–	–	63,426	£5.2532	2 Mar 2021	2 Sep 2021
Restricted Shares	14,277	–	–	–	14,277	£5.2532	8 Mar 2022	8 Sep 2022
Deferred Bonus Shares[2]	–	26,918	–	–	26,918	£5.2064	6 Mar 2023	–
Performance Shares 2017–19[4]	72,778	–	36,622	36,156	–	£5.2532	3 Mar 2020	3 Mar 2022
Performance Shares 2018–20[5]	77,504	–	–	–	77,504	£5.2532	2 Mar 2021	2 Mar 2023
Performance Shares 2019–21[5]	190,360	–	–	–	190,360	£5.2532	2 Sep 2022	2 Sep 2024
Performance Shares 2020–22[5]	–	195,912	–	–	195,912	£5.2064	6 Mar 2023	6 Mar 2025
Total	**441,317**	**222,830**	**59,594**	**36,156**	**568,397**			

Notes:

1. The Company granted conditional awards over Ordinary Shares under the PSP during the year at nil cost. The number of shares was calculated based on the mid-market closing price averaged over the five business days preceding the grant date (6 March 2020, average share price of £5.2064).
2. Deferred Bonus Shares vest three years from the date of grant, and are subject to malus adjustment. Those granted during the year reflect the 50% of the 2019 annual bonus deferred, with a face value at grant of £393,215, £769,175 and £140,151 for Scott Egan, Stephen Hester and Charlotte Jones respectively.
3. Deferred Bonus Shares granted to Scott Egan and Stephen Hester in 2017 vested during the year and 6,057 and 13,000 accrued dividend equivalent shares were added to the number of vesting awards shown above respectively. A portion of the shares were sold to cover statutory deductions, the rest were retained.
4. Performance Shares granted to Scott Egan and Stephen Hester in 2017, and Charlotte Jones in 2019 as part of her buyout awards, partially vested during the year and 9,081, 19,277 and 523 accrued dividend equivalent shares were added to the number of vesting awards shown above respectively. A portion of the shares were sold to cover statutory deductions, the rest were retained.
5. Performance Shares granted in 2018, 2019 and 2020 have performance conditions of Group underlying ROTE, Relative TSR and a Business Scorecard (one-third weighting each). The date by which performance conditions are to be met is as follows: 2018 awards by 31 December 2020, 2019 awards by 31 December 2021, 2020 awards by 31 December 2022.
6. Restricted Shares and Performance Shares in the 2017–19 and 2018–20 cycles were granted to Charlotte Jones to replace awards forfeited on leaving her previous employer, as detailed on page 94 of last year's report. Restricted Shares are subject to continued service with RSA and malus adjustment. A portion of the shares vesting in 2020 were sold to cover statutory deductions, the rest were retained.
7. Retention period applicable to 14,277 of the 22,972 share awards shown.
8. No other Directors of the Company held long-term incentive scheme interests during the year.
9. Details of the employee benefit trusts used to satisfy grants under the Group's share incentive schemes are on pages 90 and 148.

6. External directorships

Stephen Hester received fees of £93,000 during the year in respect of his non-executive role at Centrica plc, where he is Senior Independent Director. As permitted under the Remuneration Policy, he retained these fees. Scott Egan and Charlotte Jones do not hold outside directorships of FTSE 100 (or any other listed) companies but would be allowed to have one such appointment, subject to the approval of the Group Nomination and Governance Committee.

7. Loss of office and former director payments (audited)

There were no payments to Directors for loss of office in 2020.

No payments were made to former Directors in 2020.

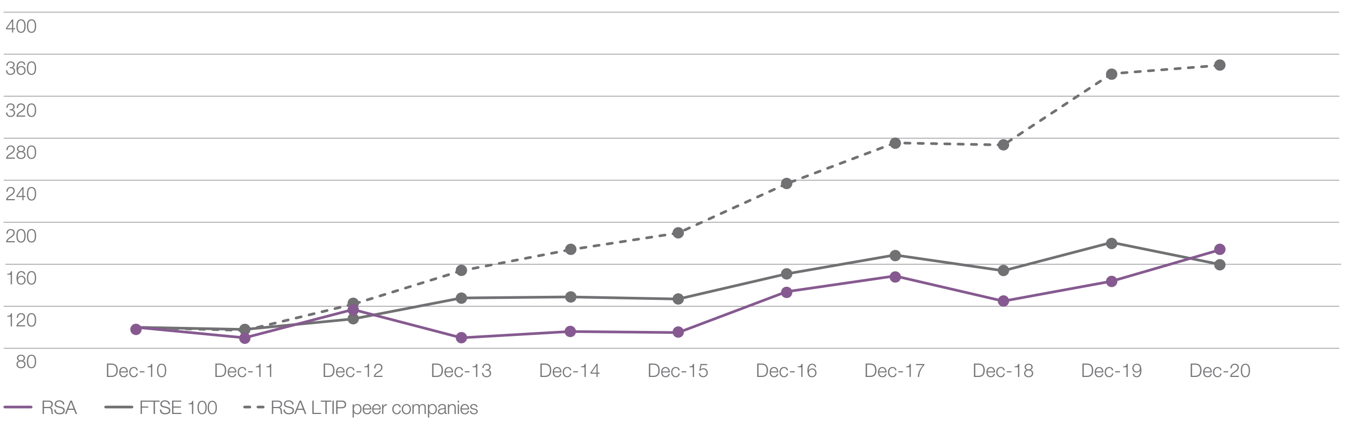
8. Contextual figures

Historical TSR and executive remuneration

The following graph shows the TSR of the Group over the ten years from 31 December 2010 to 31 December 2020, with reference to the FTSE 100 Index and a peer group comprised of those companies included in the LTIP's Relative TSR component (which are noted on pages 65 and 67). The FTSE 100 Index is included as it comprises the 100 most highly capitalised companies in the UK market, of which RSA was a member in 2020.

The graph reflects the change in value of Ordinary Shares in a company over time, as represented by a hypothetical £100 holding in the shares. Any distribution of dividends is included.

Value of hypothetical £100 holding



The table below shows the total remuneration for the incumbents appointed as the most senior Executive Director. The annual bonus award rates include both cash and deferred shares components.

	2011		2012	2013		2014		2015	2016	2017	2018	2019	2020
Director	Andy Haste	Simon Lee	Simon Lee	Simon Lee	Martin Scicluna[1]	Martin Scicluna[1]	Stephen Hester[2]	Stephen Hester[2]	Stephen Hester	Stephen Hester	Stephen Hester	Stephen Hester[3]	Stephen Hester[3]
Single figure of total remuneration (£'000)	2,488	311	2,164	1,011	21	39	2,118	2,469	4,478	5,077	3,996	4,025	4,942
Annual bonus award rates (% of maximum)	58%	59%	50%	0%	n/a	n/a	68%	77%	100%	63%	32%	93%	100%
LTIP vesting rates (% of maximum)	31%	34%	34%	0%	n/a	n/a	n/a	n/a	43%	58%	74%	50%	81%

Notes:
1. Martin Scicluna was appointed Executive Chairman effective 13 December 2013 until 4 February 2014.
2. Stephen Hester was appointed Group Chief Executive effective 5 February 2014 and did not have any long-term incentive awards in the 2012–14 and 2013–15 cycles.
3. Details of the 2019 and 2020 figures are given on pages 59 to 67.

Relative importance of spend on pay

The table below shows the all-employee pay spend and returns to shareholders by way of dividends for 2020. Figures from 2019 are provided for comparison. The employee pay data covers the Group's employees globally, and therefore includes the impact of exchange rate changes.

(£m)	2019	2020	% difference from prior year
Total Spend on Employee Pay[1]	731	809	11%
Total Distributions to Shareholders[2]	242	108	-55%

Notes:
1. Includes wages and salaries, social security costs, pension costs and share-based payments as shown in the notes to the Financial Statements on page 127.
2. Includes the figures as shown in the notes to the Financial Statements on page 131. 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.

Percentage change in remuneration

The table below sets out the percentage change in salary, benefits and bonus for Executive Directors compared with Group employees on average on a full-time equivalent basis.

	Year	Salary	Taxable benefits	Bonus	Year	Salary	Taxable benefits	Bonus
All employees (excluding directors)[1]	2019 to 2020	2.0%	4%	30%	2018 to 2019	2.3%	2%	100%
Scott Egan	2019 to 2020	2.0%	5%	-19%	2018 to 2019	2.0%	-2%	180%
Stephen Hester	2019 to 2020	2.0%	-23%	10%	2018 to 2019	2.0%	5%	197%
Charlotte Jones[2]	2019 to 2020	2.0%	-36%	23%	2018 to 2019	–	–	–

Notes:
1. A comparison to Parent Company employees is not possible, as the Parent Company RSA Insurance Group plc employs only Directors.
2. Charlotte Jones was appointed as an Executive Director effective 31 July 2019. The calculation above includes 2019 on an annualised basis. On an actual earnings basis, the change in Charlotte's salary, taxable benefits and bonus was 142%, 55% and 191% respectively. As Charlotte had no executive remuneration in 2018, it was not possible to calculate a percentage change from 2018 to 2019 in her case.

Pay ratios

The Group aims to treat all employees fairly in the markets in which we operate and provide competitive, performance-linked remuneration. RSA is accredited by the UK's Living Wage Foundation as a Living Wage Employer.

The following table compares the 2020 total remuneration single figure for the Group Chief Executive with the Group's UK-based employees at the 25th percentile, median and 75th percentile.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2020[1,3]	Option B[2]	211:1	141:1	82:1
2019[1,4]	Option B	174:1	119:1	67:1
2018[1]	Option B	180:1	122:1	69:1

Notes:
1. The Company determined the remuneration figures for the employee at each quartile with reference to a date of 31 December of the year shown.
2. Calculation method Option B was used as it provides a fair representation of the pay ratios given RSA's remuneration structures. In the business context where multiple HR information systems are operated, it is relatively time-efficient to calculate while remaining appropriately specific, and therefore is used in preference to Options A or C. Under this option, gender pay gap data as at April 2020 is used to identify the best equivalents for the three RSA UK employees paid at the 25th percentile, median and 75th percentile. A 2020 total remuneration figure is then calculated for each of these employees, and for a sample of employees with hourly remuneration rates either side to ensure that a representative employee is selected. Each of the three identified individuals was a full-time employee during the year.
3. The total pay and benefits for the individuals identified at the 25th percentile, median and 75th percentile was £23,394, £35,161 and £59,992 respectively. The base salary for the individuals identified at the 25th percentile, median and 75th percentile was: £20,105, £29,949 and £49,473 respectively.
4. The 2019 ratio figures are restated to reflect the actual value of the Group CEO's 2017–19 Performance Shares vesting.

A range of factors are taken into account in setting pay across the organisation, such as market positioning, inflation, job scale and content, and individual experience. The Group Chief Executive's remuneration is weighted relatively more towards variable pay due to the responsibility of the role, and therefore the ratio for any given year will shift according to incentive plan outcomes for that year, including multi-year long-term incentive awards. Further, since the majority of profits, revenues and employees of RSA lie outside the UK, the Group Chief Executive total remuneration will move in line with the total Group performance which may differ from UK employee averages that will primarily reflect UK performance. Nevertheless, the Committee is mindful of the importance of monitoring and assessing pay relativities, and ratios will be kept under review. The pay ratio between 2019 and 2020 shows an increase, which was due to a higher Group CEO total remuneration single figure based on a higher variable remuneration outcome and estimated share price used to value the 2018–20 LTIP vesting. The current overall trend in ratio since 2018 is similarly reflective of the combined impact of the incentive plan outcomes year-on-year (and share price movement) on the Group CEO's variable and total remuneration, as his fixed remuneration was 1.0% lower in 2020 than in 2018. As such, the Committee is satisfied that the pay ratios for 2020 are consistent with the relevant UK HR policies.

Dilution

RSA monitors its dilution levels on a regular basis to ensure that they remain within the headroom limits set by the Investment Association. As at 31 December 2020, the dilution levels were as follows:

Limit	RSA dilution %
10% over 10 years for all share schemes	3.85%
5% over 10 years for discretionary schemes, including long-term incentives	2.41%

9. Implementation of Policy in 2021

This section outlines how the Committee intends to implement the Directors' Remuneration Policy during 2021.

Fixed remuneration

No increases will apply to Executive Directors' salaries, which will remain at current levels:

Director	Annual base salary effective 1 April 2020	Annual base salary effective 1 April 2021	% change
Scott Egan	£571,063	£571,063	0%
Stephen Hester	£1,054,019	£1,054,019	0%
Charlotte Jones	£510,000	£510,000	0%

Stephen Hester's voluntary reduction of his taxable pension cash allowance will continue, with payments from 1 April 2021 to reduce by 3% of salary, to 21% of salary (future scheduled reductions are to 18% of salary from 1 April 2022 and 10% from 31 December 2022). Scott Egan's voluntary reduction of his taxable pension cash allowance will also continue, with payments from 1 April 2021 to reduce by 1% of salary to 13% of salary (future scheduled reductions are to 12% from 1 April 2022 and 10% from 31 December 2022). This will align the directors to the rate offered to new UK-based employees, reflecting recent developments in UK corporate governance.

Aligning strategy and incentive measures in 2021

The table below shows how the business strategy, and the key performance indicators that underpin it, are reflected in the Annual Bonus Plan for Executive Directors in 2021:

Strategic priorities	Annual Bonus Plan 2021
· Shareholder returns · Profitability	Group underlying ROTE, Group underlying PBT, Group/Region COR, Region Underwriting Result
· Underlying Performance · Risk and Resilience · Business Sustainability	Business Scorecard · Underlying Performance: Attritional loss ratio, total controllable costs/cost ratios, key business improvement projects; · Risk and Resilience: Regulatory capital ratios, credit rating, capital actions, risk management; · Business Sustainability: Customer franchise and other relevant actions related to the Company's long-term success including People and Corporate Responsibility.

Annual Bonus Plan 2021

The Annual Bonus Plan is aligned with the core priorities for focus in 2021. The Executive Directors will be expected to deliver against stretching targets, which are geared towards making continued performance improvement. The Group Chief Executive and CFO are targeted against the performance of the entire Group, taking into account their contribution thereto. The CEO UK & International will be targeted against a combination of the performance of his region and the Group, taking into account his contribution thereto.

The Business Scorecard component focuses on key areas of management activity essential to the success of the Company including Underlying Performance, Risk and Resilience and Business Sustainability including Customer franchise and ESG. For the CEO UK & International, divisional performance indicators are included. The Personal Scorecard consists of objectives bespoke to each Director, with a focus on both what is achieved and how goals are delivered. Half of the total bonus will be awarded in cash where clawback can apply; the balance is deferred into shares for a three-year period where malus adjustment can apply.

The Committee will assess performance for 2021 once the financial year has ended, taking into account material risk factors. All of the bonus targets are considered to be commercially sensitive because they signal the Group's forward plan for the year, and therefore they are not provided in this document. Disclosure will be provided in the 2021 Directors' Remuneration Report, to the extent that such a report is required. Should the bid for RSA complete, bonus awards for the period of 2021 to completion will be influenced by timing and the Committee will use its discretion to react to this shorter period, to determine an appropriate outcome in line with the approved Policy.

The following table sets out the structure of the Executive Directors' bonus plan for 2021.

	CEO, UK & International		Group Chief Executive and CFO	
Bonus performance measures 2021	Weighting (% of bonus)	Maximum opportunity (% of salary)	Weighting (% of bonus)	Maximum opportunity (% of salary)
Group underlying Return on Tangible Equity (ROTE)	20%	32%	20%	32%
Group underlying Profit before Tax (PBT)	–	–	10%	16%
Group COR	–	–	10%	16%
UK & International COR and Underwriting Result	20%	32%	–	–
Business Scorecard	30%	48%	30%	48%
Personal Scorecard	30%	48%	30%	48%
Total	**100%**	**160%**	**100%**	**160%**

Long-term incentive 2021–23

No 2021 grant is currently planned in light of the bid for RSA.

10. Non-Executive Directors (audited)

Total remuneration 2020

The table below sets out the Non-Executive Directors' total remuneration single figures for the financial year ended 31 December 2020. Non-Executive Directors do not receive variable remuneration.

	Fees		Taxable benefits[1]		Total		Total fixed remuneration	
(£'000)	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
Alastair Barbour	96	100	6	21	102	121	102	121
Sonia Baxendale[2]	84	68	13	11	97	79	97	79
Clare Bousfield[3]	59	–	–	–	59	–	59	–
Kath Cates	102	101	–	1	102	102	102	102
Enrico Cucchiani	76	76	3	11	79	87	79	87
Isabel Hudson[4]	–	58	–	1	–	59	–	59
Charlotte Jones[5]	–	40	–	–	–	40	–	40
Martin Scicluna	444	435	–	–	444	435	444	435
Joseph Streppel[6]	–	31	–	6	–	37	–	37
Martin Strobel	127	114	2	8	129	122	129	122
Total	**988**	**1,023**	**24**	**59**	**1,012**	**1,082**	**1,012**	**1,082**

Notes:
1. Taxable benefits: This includes reimbursement in respect of travel and accommodation related to the director's role. Sonia Baxendale received benefits of £13,363 for taxable travel and subsistence where relief under HMRC rules is not available. The corresponding 2019 figure for Sonia Baxendale in the table has been restated for travel expenses incurred in the year.
2. Sonia Baxendale was appointed as a Non-Executive Director effective 1 March 2019.
3. Clare Bousfield was appointed as a Non-Executive Director effective 1 April 2020.
4. Isabel Hudson resigned as a Non-Executive Director effective 31 July 2019.
5. Charlotte Jones was appointed as a Non-Executive Director effective 1 April 2018 until 30 July 2019. She became an Executive Director on 31 July 2019 at the effective date of her appointment as Group CFO. Figures shown here relate to her Non-Executive appointment only.
6. Joseph Streppel resigned as a Non-Executive Director effective 9 May 2019.

Percentage change in remuneration

The following table sets out the percentage change in fees and benefits for Non-Executive Directors compared with salary and benefits for Group employees on average on a full-time equivalent basis.

	Year	Salary/Fees	Taxable benefits	Year	Salary/Fees	Taxable benefits
All employees (excluding directors)[1]	2019 to 2020	2.0%	4%	2018 to 2019	2.3%	2%
Alastair Barbour[2]	2019 to 2020	-4.2%	-72%	2018 to 2019	1.5%	28%
Sonia Baxendale[3]	2019 to 2020	3.5%	1%	2018 to 2019	–	–
Kath Cates	2019 to 2020	1.5%	-69%	2018 to 2019	1.5%	0%
Enrico Cucchiani	2019 to 2020	2.0%	-77%	2018 to 2019	5.0%	75%
Martin Scicluna	2019 to 2020	2.0%	–	2018 to 2019	2.0%	–
Martin Strobel[4]	2019 to 2020	11.6%	-72%	2018 to 2019	9.5%	38%

Notes:
1. A comparison to Parent Company employees is not possible, as the Parent Company RSA Insurance Group plc employs only Directors.
2. Alastair Barbour's % fee change reflects his change in committee responsibilities.
3. Sonia Baxendale was appointed as a Non-Executive Director effective 1 March 2019. The calculation above includes 2019 on an annualised basis. On an actual earnings basis, Sonia's % fee and benefits changes were 24% and 21% respectively.
4. Martin Strobel's % fee change reflects his becoming Senior Independent Director during 2019, and is in line with the fee structure below.
5. Clare Bousfield was appointed as a Non-Executive Director effective 1 April 2020 and therefore it is not possible to calculate a percentage change in her case.

Fee structure

There will be no increase to the Chairman's fee and it will remain at its current level (effective from 1 April 2020) of £445,707.

Under the Company's Articles of Association, the Non-Executive Directors' remuneration is determined by the Board (minus the Non-Executive Directors), within limits set by shareholders. The Non-Executive Directors' fees effective from 1 April 2020 will continue to apply.

Fee structure	From 1 April 2020	From 1 April 2021
Base fee	£67,000	£67,000
Additional fee for chairing committees:		
Group Audit Committee	£20,000	£20,000
Group Remuneration Committee	£20,000	£20,000
Group Investment Committee	£12,500	£12,500
Board Risk Committee	£20,000	£20,000
Additional fee for Senior Independent Director	£20,000	£20,000
Additional committee fee[1]	£5,000	£5,000

Note:
1. A fee of £5,000 applies for each committee a Non-Executive Director is a member of other than as Committee Chairman.

Shareholding

The table below shows the interests of Non-Executive Directors in Ordinary Shares of £1.00 each of the Company, including those of closely associated persons.

Director	Shares held at 1 January 2020	Shares held at 31 December 2020[1]
Alastair Barbour	12,039	12,039
Sonia Baxendale[2]	–	6,600
Clare Bousfield[3]	–	5,732
Kath Cates	4,124	4,124
Enrico Cucchiani	–	–
Martin Scicluna	14,303	14,303
Martin Strobel	12,000	12,000

Notes:
1. As at 25 February 2021, the interests in Ordinary Shares of the current Directors have not changed since 31 December 2020.
2. Sonia Baxendale's holding is in RSA ADRs, purchased 5 March 2020.
3. Clare Bousfield was appointed as Non-Executive Director effective 1 April 2020. The table above shows her shareholding as at that date and not 1 January 2020.
4. Full details of all Directors' shareholdings and options to subscribe for shares are recorded in the Group's Register of Directors' Interests which is open to inspection by shareholders at the AGM and at the Company's registered office during standard business hours. The Directors had no share options that vested and remained unexercised, or were exercised in the year.

Contracts

The table below shows when the Non-Executive Directors' appointments became effective and their ninth anniversary. All Non-Executive Directors, including the Chairman, are subject to annual re-election by shareholders at the Annual General Meeting.

Non-Executive Director	Date of initial appointment	9th anniversary
Alastair Barbour[1]	10 October 2011	10 October 2020
Sonia Baxendale	1 March 2019	1 March 2028
Clare Bousfield	1 April 2020	1 April 2029
Kath Cates	1 September 2013	1 September 2022
Enrico Cucchiani	1 December 2014	1 December 2023
Martin Scicluna	1 January 2013	1 January 2022
Martin Strobel	1 May 2016	1 May 2025

Note:
1. In October 2020 it was announced that Alastair Barbour would remain on the Board as a Non-Executive Director. He had intended to step down from the Board at this time, being the ninth anniversary of his appointment as a non-executive director. Alastair has continued to serve on the Board during the proposed acquisition of the Group to provide continuity and to contribute his considerable knowledge and experience to the process. For further details please see pages 41 and 54.

11. Statement of voting at Annual General Meeting

The following voting was recorded at the AGM on 7 May 2020:

Resolution	Votes for	Votes against	Total votes cast	Votes withheld[1]
To approve the Directors' Remuneration Report				
Number of votes	725,625,014	34,620,760	760,245,774	7,829,107
% of votes cast	95.45%	4.55%	100%	–

The most recent resolution to approve the Directors' Remuneration Policy was at the AGM on 7 May 2020, where the following voting was recorded:

Resolution	Votes for	Votes against	Total votes cast	Votes withheld[1]
To approve the Directors' Remuneration Policy				
Number of votes	742,441,744	25,383,856	767,825,600	249,281
% of votes cast	96.69%	3.31%	100%	–

Note:
1. Votes withheld are not included in the calculation as a vote withheld is not a vote in law.

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

25 February 2021

Summary of Directors' Remuneration Policy

1. Introduction

The Directors' Remuneration Policy was approved by shareholders on 7 May 2020, and was effective from that date. No changes to the Policy are proposed this year.

This Policy describes the framework that will be used to set and manage the Directors' remuneration, including:

- How decisions on Directors' remuneration will be made at RSA, and the philosophy and strategy which underpin these decisions;
- How remuneration packages will be structured for current, newly appointed and departing directors;
- What impact business and individual performance will have on the potential value of Executive Directors' remuneration;
- What key contractual terms will apply to current and newly appointed directors; and
- RSA's engagement with its shareholders and employees on the subject of executive remuneration.

For ease of reference, elements of the Policy are re-presented on the following pages 77 to 84, including the policy tables and information on Directors' contractual terms. The full Policy Report is contained in the 2019 Annual Report and Accounts (pages 76 to 84), which is available at www.rsagroup.com/investors/reports.

2. Determining and reviewing the Policy

The Policy has been determined by the Group Remuneration Committee ('the Committee') on behalf of the Board after reviewing the impact of the existing Policy, key governance factors, and taking account of stakeholder feedback. To ensure conflicts of interest are managed, the Committee ensures no Director determines the policy regarding their own remuneration. The factors considered are set out below:

Clarity

The Committee has reviewed stakeholder feedback since the 2017 Policy was put in place and concluded the Policy is clear and well understood, it facilitates transparent Director pay decisions, and allows incentive targets and outcomes to be published in detail.

Simplicity

The Committee believes the five remuneration components (base salary, benefits, pension, annual bonus and long-term incentive) offer appropriate simplicity. It believes it is important to have both an annual incentive (supporting the delivery of short-term goals) and an LTIP (supporting the long-term strategy), as this provides better scope to align reward to different aspects of performance.

Risk

Risk management is built into the Policy, in line with good practice. Formulaic award outcomes can be overridden (e.g. if the outcome would be excessive beyond management's influence) and/or adjusted down for risk. Malus and clawback provisions are in place. Half of the bonus is deferred. The LTIP is three years plus a two-year retention period. There is a significant shareholding requirement, which is now extended to apply post-employment.

Predictability

The Executive Directors' remuneration potential in threshold, target and maximum performance scenarios is noted on the following pages. The Policy states the maximum bonus and LTIP grant values.

Proportionality

The Committee is satisfied the reward opportunities of the Executive Directors remain within market norms, and are considered to appropriately balance the desire not to pay unnecessarily with the need to attract, retain and incentivise appropriately for the delivery of stretching performance targets. No variable remuneration will be delivered for below threshold performance.

Alignment to culture

The Committee reviewed the balance of financial and non-financial incentive measures, and the approach to assessing individual performance (which places emphasis on both 'what' is delivered, and 'how' goals are met in the context of RSA's values). It concluded the Policy is aligned to RSA's business values and desired culture.

Shareholder engagement

The Committee maintains an open dialogue with shareholders. In the course of reviewing the Policy in 2019, the Committee Chair wrote to RSA's leading investors and proxy agencies. The resulting comments (from both written feedback and in person discussions) were taken on board when assessing whether any changes were needed to the Policy, and supported the conclusion that no major changes were needed. They also helped shape the Committee's approach regarding key Corporate Governance Code provisions on pensions and shareholding.

Director and workforce remuneration

The Committee Chair engaged with RSA employees during the year on executive remuneration, via the internal social network site and invited feedback. While employees are not specifically consulted on the Directors' Remuneration Policy, this activity, as part of wider workforce engagement forums such as employee surveys and town halls, enables an ongoing dialogue between the Committee and RSA's employees.

To provide the Committee with context when considering Executive Directors' remuneration, and when developing the Policy, it considered the remuneration arrangements for the Group's employees in general (for example, salary increases and pension and incentive opportunities) as well as pay relativities. In 2016, the Company was accredited by the UK's Living Wage Foundation as a Living Wage Employer.

Similar factors are used in setting both employee and executive pay, including market positioning, job size and content, and individual experience. All permanent UK-based employees are eligible to receive a bonus award, and have the opportunity to participate in RSA's all-employee share plans. At senior levels, remuneration is increasingly long-term and at risk, with an increased emphasis on share-based remuneration. For example, bonus deferral is only operated for senior leaders (and where required by Solvency II), as is participation in the long-term incentive plan.

Implementing the Policy

The Committee refers to the Policy in its decisions throughout the year. It considers its impact in determining how to implement it in the following year. Each year's Remuneration Report notes how the Policy has been implemented over the previous year and how it will be implemented the following year.

3. RSA's remuneration principles

The remuneration philosophy and strategy is aligned to the long-term interests of the Company, its business strategy and performance. The remuneration framework is designed to promote sound and effective risk management in line with the Company's risk profile. The remuneration principles, applied consistently across the Group, that the Committee follows are:

Competitiveness and cost effectiveness

- Competitive remuneration packages are offered in order to attract, retain and reward the levels of high calibre talent which are essential to RSA's success in today's competitive global insurance market.

Fair-minded

- The remuneration framework is reviewed regularly to ensure that it continues to appropriately reward executives, while protecting shareholders' interests and complying with principles of good risk management and reward governance and avoiding conflicts of interest.

Pay for performance

- Pay is linked to performance, with variable remuneration fully contingent on the achievement of stretching short- and long-term objectives which directly support the achievement of strategic priorities and are aligned to shareholders' interests.
- Executive Directors and other executives are required to hold a significant number of shares in the Company; they are encouraged to act in shareholders' best interests by having a personal investment in RSA.

Open and transparent

- Each component of the total remuneration package is simple and transparent, so as to be effective and understood by executives, shareholders and regulators.

4. Remuneration Policy for Executive Directors

The following table sets out the components of the Executive Directors' remuneration package and how they operate.

Purpose and Strategic Link	Operation	Maximum opportunity	Performance measures
Base salary (fixed remuneration) This element is designed to attract and retain high calibre executives, essential for ensuring RSA's ongoing success.	Salaries are reviewed annually considering factors including: market positioning, internal pay relativities, levels of pay for other RSA employees, inflation, affordability, job scale and content, individual's experience and expertise. Salaries are benchmarked referencing peer group companies of comparable size and complexity. There is no automatic right for any Director to receive a salary increase. Only annual base salary is pensionable. An existing Executive Director's salary may be increased outside of the normal review cycle for material role changes.	Other than exceptional circumstances such as a role change, salary increases will not exceed the level of increases applied to other RSA employees.	Performance conditions do not apply, but business and individual performance may be considered when conducting the review process.
Benefits (fixed remuneration) This element forms part of a market competitive package and supports the executive.	Benefits typically cover the areas of: health and well-being, leave of absence, car and business travel, sickness benefit, insurances, professional subscriptions, external advice and employee discounts on certain insurance products. Home to work travel may be covered where appropriate. Some benefits are delivered as taxable cash-in-lieu allowances. Tax changes are not compensated. Assistance would be available under RSA's relocation policy or global mobility policy should this be required. Expenses can be claimed according to RSA's business and travel policies, including tax thereon where such expenses do not qualify for tax relief. Executive Directors in participating countries can acquire shares in RSA's all-employee share plans (Sharesave and Sharebuild), and those in the UK can participate in RSA's flexible benefits programme. Benefits are determined with reference to market practice within the same peer group companies referred to in respect of salaries. The Committee can also source information from bespoke benefit surveys to aid decision-making. The Committee can amend any benefit or introduce new ones to ensure the remuneration package remains market competitive or to respond to regulatory, legal or best practice changes.	Benefits are valued and determined with reference to the benchmarking peer groups and other surveys reviewed by the Committee. Benefits are fixed remuneration, however the cost to provide them can vary from year to year in line with market conditions, which therefore determine the maximum value.	None.
Pension (fixed remuneration) This element forms part of a market competitive package and enables executives to save for retirement.	Pension benefits take the form of employer contributions to a pension plan, or a full/partial cash allowance in lieu. The RSA UK defined benefit pension schemes are closed to all new entrants and future accrual. Pension cash allowances are paid monthly and are subject to statutory deductions. The Committee can adjust contribution or allowance levels (within the maximum provided by the Policy) to ensure these remain appropriate and market aligned. It can also agree changes to the terms of the Directors' pension plan(s), as appropriate.	The maximum pension contribution rate for newly appointed Executive Directors will be aligned to the offering for new RSA employees in their country (currently 10% of salary for UK new hires and the majority of UK employees). The pension contribution rates for existing Directors will reach 10% of salary by the end of 2022, through voluntary reductions[1].	None.

Note:

1. Stephen Hester's rate reduced from 27% of salary to 24% from 1 April 2020, and will reduce to 21% from 1 April 2021, 18% from 1 April 2022 and 10% from 31 December 2022. Scott Egan's rate reduced from 15% of salary to 14% from 1 April 2020, and will reduce to 13% from 1 April 2021, 12% from 1 April 2022 and 10% from 31 December 2022. Charlotte Jones currently receives 10% of salary.

Purpose and Strategic Link	Operation	Maximum opportunity	Performance measures
Annual Bonus Plan (variable remuneration) This element incentivises the achievement of short-term financial and non-financial goals in line with RSA's risk profile. Deferral into shares enhances shareholder alignment.	Bonus awards are calculated against stretching annual financial and non-financial targets, as well as the performance of the individual executive. 50% of the bonus is deferred into a share award for a period of three years, and 50% is awarded in cash. Vested shares must be retained until the relevant shareholding level is reached, excluding any sold to satisfy statutory deductions. Awards are subject to the Group's malus and clawback provisions Dividend equivalents accrue on the deferred shares, and are awarded at the end of the deferral period. The Committee can exercise discretion to change the bonus measures, how they are weighted, calculated and targeted. It can adjust bonus outcomes to reflect broader performance considerations if considered appropriate and in shareholders' interests, including adjustment downwards for current or future risk exposure, and make such amendments as are necessary to respond to regulatory, legal or accounting requirements. Shareholders will be notified if this has been carried out by disclosure in the relevant Directors' Remuneration Report.	The normal maximum bonus opportunity is 160% of salary. An additional bonus opportunity of up to a further 40% of salary may be available, at the Committee's discretion, to recognise highly exceptional circumstances. Full disclosure will be given if an increased bonus opportunity is applied. Actual bonus awards are linked to achievement as follows: · Below threshold – no bonus · Threshold – 10% of maximum opportunity · Target – 50% of maximum opportunity · Maximum – 100% of maximum opportunity	Performance measures and weightings are set each year considering the Company's strategy and shareholder interests, and will vary based on each Directors' area of responsibility where appropriate. Measures typically cover profit, underwriting performance, risk management, expenses, capital and balance sheet strength, customer and business sustainability, and objectives personal to the executive. A majority weighting is given to financial metrics. Measures can be assessed on a Scorecard basis. Performance is measured over one financial year. Targets are set with reference to the Group's operational plan. The performance measures and targets used to inform the 2020 bonus awards are on pages 60 to 65.
Long-term incentive Plan (LTIP) (variable remuneration) This element supports RSA's long-term strategy, performance and priority to create shareholder value through sustained earnings and share price growth. The share-based nature of the plan enhances shareholder alignment.	Conditional long-term incentive awards are granted annually in the form of Performance Shares, and may vest wholly or partially subject to company performance conditions. The performance period will normally be at least three years for all measures, with no re-testing. A two-year retention period applies to vested Performance Shares, excluding any sold to satisfy statutory deductions. Such periods continue on awards retained on leaving RSA, ending on the earlier of: (i) the usual end of the retention period, or (ii) two years after employment cessation, unless waived by Committee discretion (e.g. on death or change of control).[1] Vested shares must be retained until the relevant shareholding level is reached, excluding any sold to satisfy statutory deductions. Awards are subject to the Group's malus and clawback provisions. Dividend equivalents accrue during the performance period and are added to the shares that vest. The Committee can act within the parameters of the Plan's rules as approved by shareholders and its performance conditions, enabling the LTIP to be appropriately administered under both normal and exceptional circumstances.[2] The Committee can make such amendments as may be necessary to respond to legal, accounting or regulatory changes. Awards can be reduced or otherwise amended, provided the action is fair and justifiable, for example, to guard against a windfall award or the converse generated by an accounting treatment. Vesting can be adjusted downwards to reflect broader performance considerations if considered appropriate and in shareholders' interests, including for current or future risk exposure.	The normal maximum LTIP opportunity is 230% of salary. For recruitment purposes, or in highly exceptional circumstances, such as for retention, the Committee may agree to a conditional performance-related award being made up to an additional 170% of salary. This would be considered a 'one-off' award. Where an exceptional award is made, full disclosure will be given of the rationale. Award vesting is linked to achievement against the performance conditions as follows: · Below threshold – 0% vesting · Threshold – 25% vesting · Target – 62.5% of vesting · Maximum – 100% vesting	Performance conditions are reviewed for each new cycle and set in line with the Company's operational plan, long-term strategy and considering shareholder interests. Measures are typically linked to value creation through performance of the Group's share price, profit, capital and balance sheet strength and underlying performance. The LTIP will include at least two measures. A majority weighting is given to financial metrics. Metrics can be assessed through a Scorecard. Shareholders will be consulted if material changes to the measures are proposed by the Committee. The measures and targets for the 2020–22 cycle are detailed in the Annual Report on Remuneration.

Notes:

1. Post-employment retention periods apply to awards granted from 2019 onwards.
2. The current LTIP, referred to as the Performance Share Plan 2014 (PSP), was approved by shareholders at the 2014 AGM. It is also used as a vehicle for granting deferred bonus shares, and restricted shares where these are awarded as part of an Executive Director buy-out. The LTIP policy provisions are the same for all other participants who receive performance-based awards, with the exception of the two-year post-vesting retention period which only covers Executive Directors, and local regulatory requirements. LTIP award opportunities vary for individuals below the Board. Members of the Executive Team and selected senior leaders across the Group are also required to hold shares in RSA.
3. To ensure the Policy remains risk aligned, the use of hedging or insurance contracts in connection with variable remuneration is not permitted.

5. Approach to recruitment remuneration

The Committee ensures a consistent and transparent approach is taken when appointing Executive Directors to the Board, as shown in the following table. When a new Executive Director is recruited, the Committee will provide details of how the Policy has been implemented in respect of their appointment terms in the relevant Directors' Remuneration Report.

Remuneration components	Notes on approach
Base salary	· Set using the same approach as for existing Directors' salary reviews. The Committee can exercise discretion on the timing and level of salary reviews for newly appointed Directors reflecting the individual's development and performance in the role.
Benefits and contractual terms	· Benefits and contractual terms will be the same as those offered to current Executive Directors, however the Committee will have close regard for the benefits and contractual terms offered to other new RSA employees, and may exercise judgment to flex the package to accommodate any specific terms bespoke to the individual, e.g. related to health, annual leave, relocation or insurance benefits. · Where the Director is an internal appointee to the Board, or appointed following a corporate transaction, he/she may be permitted to retain any legacy benefits or terms at the Committee's discretion, or a buy-out may be made depending on the benefit type and circumstance. Continuity of service with the Group will be maintained.
Incentive awards	· Under normal circumstances, a new Executive Director will be eligible for incentive awards in line with the usual policy. However, in exceptional circumstances, a higher bonus opportunity of up to 200% of salary may be agreed and a performance-related LTIP award may be approved by the Committee in the Director's first year of service up to the limit of 400% of salary. · If the director is entered into an RSA LTIP and made an award of Performance Shares, these will be subject to the same performance conditions and vesting terms as applies to other plan participants. · Where the Director is an internal appointee to the Board, any outstanding legacy awards granted under current or previous incentive schemes may continue and remain eligible to vest on the basis of their original award terms.
Buy-outs	· Where the Director is an external appointment, the Committee may agree to a compensatory package reflecting the value and terms of incentives or benefits forfeited upon resignation. - This will only be permitted on receipt of reasonable evidence of loss. - Typically, the form of award that is being forfeited (e.g. cash or shares) will be replaced by the same form of award at RSA. - Performance-linked awards will normally only be compensated with Restricted Shares where a performance condition has been achieved or is nearing testing and there is a reasonable expectation of the vesting level. - Cash bonuses may be bought out with Restricted Shares in order to give the Director an early 'stake' in RSA. - The Committee may agree to reduce the value of the compensatory award below the anticipated or actual loss value if the compensation is paid at an advanced date (i.e. early settlement). - Any compensatory award using cash or restricted shares will always carry a service condition and an appropriate repayment schedule to protect shareholders' interests.

6. Service contracts and policy for payments on loss of office

Each of the Executive Directors is employed under a service agreement, which contains a variety of contractual terms and conditions. Contracts are available for inspection by shareholders at the Company's registered office. Terms are designed to ensure fair treatment for departing executives while avoiding reward for failure.

Key terms	Notes on approach
Notice period	· No Director will be appointed on a notice period exceeding 12 months. The current Executive Directors' employment contracts have no fixed term, and can be terminated by the Company or the individual, by the serving of 12 months' notice. · In the case of summary dismissal, no notice will be served by the Company and no compensation will be paid in lieu of it. · Notice periods are approved by the Committee, and at its discretion, can be reduced in the event an Executive Director resigns and wishes to leave prior to the end of his or her contractual notice period. · The Company can require accrued annual leave related to the year of termination to be used during a notice period or garden leave, although payment of untaken days can alternatively be made in lieu.
Garden leave	· The Company has the contractual right to place the Executive Directors on garden leave for part, or all, of their notice period. · Salary, benefits and pension contributions continue during garden leave, but this time will not count towards the calculation of any Annual Bonus award that may subsequently be due.
Payment in lieu of notice (PILON)	· A Director may be paid in lieu of an unexpired portion of their notice period, covering base salary, pension and benefits, regardless of which party has served notice. · Generally, in the event of termination and in all cases of termination on performance grounds, PILON would be made on a phased basis subject to mitigation, and would be reduced or ceased if the Director starts to receive payment or remuneration from alternative employment.
Termination payment	· There are no pre-determined special provisions for Directors with regard to compensation for loss of office. · If a loss of office were to occur giving rise to a redundancy payment under prevailing employment legislation, the payment will be calculated taking account of the Director's length of service with the Group and his/her annual gross basic salary as at their employment termination date. · In the normal course of events, reasonable professional fees may be paid in relation to a Director's employment termination. · No payment or compensation for loss of office made to any departing Director will be disclosed if it is less than £10,000 gross. · Executive Directors do not have terms which provide additional rights or payments to them in the event of a change of control, reconstruction or amalgamation of the Company.
Restrictive covenants	· Restrictive covenants are in place to help protect RSA's interests should the individual leave the Company for any reason.
External appointments	· Executive Directors may hold one external non-executive position provided this does not give rise to any conflict of interest, with the approval of the Group Nomination and Governance Committee. If there is any remuneration arising from this role, the individual can retain it.

The Committee's approach to incentive treatment for Executive Director leavers is set out in the following table. Based on the leaving circumstances and having regard of shareholders' interests, the Committee can exercise discretion to reduce or lapse awards or enable a proportion of awards to be received but only in highly exceptional circumstances and where appropriate. Shareholders will be informed if discretion is applied, and details will be provided wherever possible.

Leaving circumstances	Approach to Annual Bonus	Approach to Deferred Bonus Shares	Approach to unvested LTIPs
Resignation or dismissal for cause	· Not eligible if left or under notice at the date of payment.	· Forfeited if dismissed for cause. · Normally vest in line with the normal timetable if resignation.	· Forfeited.
Good leavers · At the Committee's discretion, and normally including such circumstances as planned retirement, death, disability/ medical severance, transfers outside of the Group and redundancy[1]	· Eligible for the proportion of the bonus year served. · Performance is tested in line with the normal performance timetable. · In cases of death and, with Committee discretion, medical severance, performance can be tested and awards made sooner than the scheduled date. · The Committee has the discretion to make the final bonus award in cash and so waive deferral, subject to any regulatory requirements.	· Normally vest in line with the normal timetable. · In cases of death and, with Committee discretion, medical severance, awards can vest sooner than the scheduled date.	· Performance is tested in line with the normal timetable. · In cases of death and, with Committee discretion, medical severance, performance conditions can be tested early and awards vest sooner than the scheduled date. · Awards vest subject to performance and time pro-rating.
Change of control	· Normally good leaver treatment applies as above. · Where this is the case, performance can be tested and awards made sooner than the scheduled date.	· Awards can vest sooner than the scheduled date. · The Committee can determine whether a pro-ration for time is applied to these awards.	· Performance conditions are tested early and awards can vest sooner than the scheduled date. · Vesting level determined with regard to performance and time served.

Note:
1. The Committee will make reasonable judgment on determining whether a Director qualifies for good leaver status by reason of retirement, by understanding the individual's intentions post employment termination and taking account of the context of his/her departure from the Group.

7. Malus and clawback

The Group operates malus and clawback provisions. In summary, the Committee has the ability to reduce or forfeit awards that have yet to be paid or vest in the case of shares, to delay the payment or vesting date or to amend another form of award or benefit which has yet to be received (malus adjustment). The Committee may also recover sums already paid to Executive Committee members if it considers it appropriate to do so (clawback). This can be applied during a two-year period after receipt (in the case of cash bonuses) or vesting (in the case of long-term incentives).

The circumstances in which malus and clawback may apply are outlined in the table below:

Malus adjustment	Clawback
· Material financial misstatement of results for any financial year or the material financial loss/under-performance of a business unit that could have been reasonably risk-managed · Error or material misstatement leading to an overpayment · Employee misconduct, including regulatory or other breaches · Legitimate concerns regarding an employee's conduct, capability or performance · Actions leading to reputational damage · Deterioration in the financial health of the Company leading to severe financial constraint · Any other situation as the Committee may reasonably determine.	· Material financial loss of a business unit as a result of circumstances that should reasonably have been risk-managed by the individual · Material error or financial misstatement of results which has resulted in an overpayment · Gross or serious employee misconduct.

8. Legacy incentive plans

The Policy provides for any outstanding awards granted under legacy incentive plans to continue in place, although the current Executive Directors do not hold any such awards.

Existing incentive awards granted under the Remuneration Policy approved by shareholders in 2017 will continue in place.

9. Required shareholding

RSA believes it is in shareholders' interests for its executives to hold shares in the Company and build a stake in the business. They are expected to retain vested shares arising from the Company's share plans to build and maintain a minimum shareholding level.

Shareholding provisions

- Executive Directors must build up a shareholding in RSA according to specified levels, expressed as a salary multiple.
- The shareholding levels to be reached are
  - Group Chief Executive: 300% of salary
  - Other Executive Directors: 200% of salary
- Executives have a targeted five years in which to build up their holding, commencing from the first date an unconditional share award is made to them as a Director. No shares are to be sold until the holding level is reached, except where required to cover statutory deductions.
- The shareholding level (or the actual holding at termination, if lower) must be maintained for two years post-employment.
- The shares which count towards the holding level are those held either in the executive's own right or that of immediate family members. Outstanding RSA share awards which are not, or cease to be, bound by any performance conditions are also included on a post-tax basis (i.e. a deduction is made for those awards that would be sold to cover tax and other statutory deductions at vesting).
- The Committee can exercise discretion to temporarily waive or reduce the holding requirement or allow shares to be sold in exceptional business or personal circumstances (e.g. ill health, death, change of control, divorce, financial hardship).
- The shareholding levels were determined with reference to the practice across the Company's benchmark peer groups.

10. Policy for Non-Executive Directors

The following table outlines the components of Non-Executive Directors' remuneration:

Purpose and Strategic Link	Operation and maximum level of remuneration
Fees This element ensures competitive remuneration is paid to attract high calibre non-executives and recognise their time commitment on the Board.	· Non-Executive Directors (aside from the Chairman) receive a base fee, further fees are then paid to reflect membership of a committee, and for chairing a committee. A separate fee is paid to the Senior Independent Director. · The Chairman receives a fee for his role and this is set by the Committee. · Director fees will not exceed the limit stated in the Company's Articles of Association, as approved by shareholders. · Fees are paid in cash, subject to any required statutory deductions. · Fees are reviewed annually but an annual increase may not always be applied. · When assessing fee levels, account is taken of the required time commitment and the degree of expertise necessary to fulfil the particular role (such as chairing a committee). · The fees are benchmarked using the same peer groups as for the Executive Directors' remuneration, and will have regard to the market median. · The Company has the discretion to introduce new fees or change the Non-Executive Directors' terms. · Details of the Chairman's fee and the Non-Executive Directors' fees earned for 2020 are noted on pages 74 to 75.
Other key terms of office Reflects current good governance.	· Non-Executive Directors may claim expenses in accordance with RSA's business and travel policies, including tax thereon where such expenses do not qualify for tax relief. · They receive no other benefits, but they can have RSA insurance products at a discount. · As the Non-Executive Directors are not employed by the Company, they are not eligible to receive a bonus award or participate in any of RSA's share plans. · Non-Executive Directors may hold shares in RSA but this is a personal matter and is not mandatory.

Non-Executive Directors are not employed by RSA, but they are engaged on a contract for services basis. They are issued with an appointment letter with no fixed term, but are subject to annual re-election by shareholders at the Annual General Meeting and will not usually serve for more than nine years from the date of their first appointment. The term of office can end with either the individual or the Company serving one month's notice, or three months in respect of the Chairman. No notice will be served by the Company in the event of gross misconduct. Appointment letters are available for inspection by shareholders at the Company's registered office.

Non-Executive Directors are expected to disclose any conflicts of interest prior to, and during, the course of their tenure. They will not participate in making a decision if any conflict is considered to impact their independence or limit their ability to discharge their duties to shareholders. Since Non-Executive Directors and the Chairman receive only fees and expenses, no individual can have a loss of office payment, although payment in lieu of notice can be made.

Other disclosures

Index to Directors' Report and Other disclosures

Listing Rule 9.8.4 R cross-reference table

Information required to be disclosed by LR 9.8.4 R (starting on the page indicated):

Interest capitalised	Not applicable
Publication of unaudited financial information	Not applicable
Details of long-term incentive schemes	Not applicable
Waiver of emoluments by a director	79
Waiver of future emoluments by a director	79
Non pre-emptive issues of equity for cash	Not applicable
Item 7 (in relation to major subsidiary undertakings)	Not applicable
Parent participation in a placing by a listed subsidiary	Not applicable
Contracts of significance	Not applicable
Provision of services by a controlling shareholder	Not applicable
Shareholder waivers of dividends	90
Shareholder waivers of future dividends	90
Agreements with controlling shareholders	Not applicable

UK Corporate Governance Code

The Board, through the Group Nomination and Governance Committee, monitors compliance with the Code. The Company has complied with all principles and provisions of the 2018 Code which was in force throughout the year (which is available at www.frc.org.uk). Details of how the principles and provisions of the Code have been applied are set out in the Directors' and Corporate Governance Report, the reports from the Board committees and in the Strategic Report.

The table below sets out where the required reporting on the provisions can be located.

Provisions that include required annual report disclosures	Reporting cross-reference
Board leadership and company purpose	
Provision 1: The board should describe in the annual report how opportunities and risks to the future success of the business have been considered and addressed, the sustainability of the company's business model and how its governance contributes to the delivery of its strategy.	Relevant disclosures contained in the Strategic Report pages 4 to 5 and 12 to 13 and the Corporate Governance Report
Provision 2: The annual report should explain the board's activities and any action taken in relation to monitoring and assessing culture. In addition, it should include an explanation of the company's approach to investing in and rewarding its workforce.	Relevant disclosures contained in the Strategic Report pages 38 to 39
Provision 4: When 20 per cent or more of votes have been cast against the board recommendation for a resolution, the company should explain what actions it intends to take to consult shareholders in order to understand the reasons behind the result. The board should provide a final summary on the views received by shareholders and actions taken in the annual report.	Not applicable this year
Provision 5: The board should understand the views of the company's other key stakeholders and describe in the annual report how their interests and the matters set out in section 172 of the Companies Act 2006 have been considered in board discussions and decision-making.	Relevant disclosures contained in the Strategic Report pages 6 to 11
Division of responsibilities	
Provision 10: The board should identify in the annual report each non-executive director it considers to be independent.	Pages 42 to 43
Provision 14: The annual report should set out the number of meetings of the board and its committees, and the individual attendance by directors.	Page 55
Provision 15: Additional external appointments should not be undertaken without prior approval of the board, with the reasons for permitting significant appointments explained in the annual report.	Page 54
Composition, succession and evaluation	
Provision 20: If an external search consultancy is engaged it should be identified in the annual report alongside a statement about any other connection it has with the company or individual directors.	Not applicable this year
Provision 21: The external evaluator should be identified in the annual report and a statement made about any other connection it has with the company or individual directors.	Not applicable this year
Provision 23: The annual report should describe the work of the nomination committee.	Pages 53 to 54
Audit, risk and internal control	
Provision 26: The annual report should describe the work of the audit committee.	Pages 49 to 52
Provision 27: The directors should explain in the annual report their responsibility for preparing the annual report and accounts, and state that they 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 company's position, performance, business model and strategy.	Page 93
Provision 28: The board should carry out a robust assessment of the company's emerging and principal risks. The board should confirm in the annual report that it has completed this assessment, including a description of its principal risks, what procedures are in place to identify emerging risks, and an explanation of how these are being managed or mitigated.	Relevant disclosures contained in the Strategic Report pages 28 to 31
Provision 29: The board should monitor the company's risk management and internal control systems and, at least annually, carry out a review of their effectiveness and report on that review in the annual report.	Relevant disclosures contained in the Corporate Governance Report on page 51
Provision 31: Taking account of the company's current position and principal risks, the board should explain in the annual report how it has assessed the prospects of the company, over what period it has done so and why it considers that period to be appropriate.	Page 88
Remuneration	
Provision 35: Where a remuneration consultant is appointed, this should be the responsibility of the remuneration committee. The consultant should be identified in the annual report alongside a statement about any other connection it has with the company or individual directors.	Page 58
Provision 41: There should be a description of the work of the remuneration committee in the annual report.	Relevant disclosures contained in the Remuneration Report on pages 56 to 84, particularly on pages 56 to 57

Articles of Association

The directors may exercise all the powers of the Company subject to the Articles of Association, relevant law and any directions that may be given by the Company at general meetings by shareholder resolution. The Articles of Association authorise the Board to manage the business of the Company and give the directors power to appoint and replace directors as required until the next AGM.

The Company's Articles of Association may be amended by special resolution of the Company's Ordinary shareholders.

The Company's current Articles of Association are available on the Company's website at www.rsagroup.com/articles.

Borrowing powers

Article 101 of the Articles of Association sets out the restrictions on the borrowings of the Company. The aggregate amount, for the time being, remaining borrowed by the Group must not, without the previous sanction of an ordinary resolution of the Company, be more than one-and-a-half-times the aggregate of: (i) the amount paid up on the issued share capital of the Company; and (ii) the total of the capital and revenue reserves of the Group (subject to certain adjustments).

Conflicts of interest

In accordance with section 175 of the Companies Act 2006, each director has a duty to avoid conflicts of interest. Under Articles 94 and 95 of the Company's Articles of Association, conflicts of interest may be authorised by the Board or a Board committee. Directors are required to notify the Company Secretary when a potential conflict of interest arises. Each director's conflicts of interest are reviewed on an annual basis. Any director who has declared a conflict of interest shall not count towards the quorum or vote on any resolution to authorise the conflict of interest and, at the Board's discretion, may be excluded from any meeting at which the conflict of interest is under consideration. Where a conflict of interest is authorised, restrictions may be imposed on the conflicted director, such as excluding the director from the discussion or restricting the receipt of information in connection with the conflict of interest.

The Board confirms that it has reviewed the schedule of directors' conflicts of interest during the year and that the procedures in place operated effectively in 2020. None of the directors had an interest in any contract of significance with the Company or any of its subsidiaries during 2020.

Directors' indemnity

Article 143 of the Articles of Association provides that, among other things and insofar as permitted by law, the Company may indemnify its directors against any liability and may purchase and maintain insurance against any liability. The Company has granted an indemnity to each of the directors pursuant to the power conferred by Article 143 of the Articles of Association. The indemnities granted constitute qualifying third-party indemnity provisions, as defined by section 234 of the Companies Act 2006, and is in addition to appropriate insurance cover. The Company believes that it promotes the success of the Company to provide this indemnity to its directors in order to ensure that the Group attracts and retains high-calibre directors through competitive terms of employment in line with market standards.

The directors and officers of the Company and its subsidiaries also have the benefit of Directors & Officers insurance which provides suitable cover in respect of legal actions brought against them. In addition, the Company also maintains a pension trustee liability insurance policy for the directors of SAL Pension Fund Limited and Royal & Sun Alliance Pension Trustee Limited, subsidiaries of the Group, in relation to such person's role as a trustee of an occupational pension scheme. This insurance constitutes a qualifying pension scheme indemnity provision under section 235 of the Companies Act 2006. These insurances were in force during the year ended 31 December 2020 and remain in force as at the date of this report.

Dividends

In accordance with regulatory requirements, in order for the Company's Ordinary Shares to be counted towards the new Group capital requirements, any dividends declared by the Company must be capable of being cancelled and withheld or deferred at any time prior to payment, if the relevant capital requirements have been breached or payment of the dividend would lead to non-compliance with those requirements. The directors have no current intention of exercising this cancellation right, other than where required to do so by the PRA or necessary or desirable for regulatory capital purposes. This year, the Board suspended payment of the 2019 final dividend due to regulatory advice and the need to maintain a strong capital base to support our customers during the Covid-19 pandemic and deferred the 2020 interim dividend payment to December 2020. Consistent with the 2.7 statement regarding the recommended cash offer for RSA Insurance Group plc on the 18 November 2020, a final dividend for 2020 is not being proposed though were the transaction not to complete, the directors would intend to declare catch-up payments thereafter.

Employment information

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

RSA is committed to the promotion of equal opportunities and the only acceptable form of discrimination is on the basis of an individual's ability to do the job. We aim to ensure there is no less favourable treatment on the grounds of:

- Sex
- Sexual orientation
- Gender re-assignment
- Marital or Civil Partnership status
- Race – including colour, nationality, ethnic or national origin
- Disability
- Religion or belief
- Age
- Pregnancy and maternity.

The Group is committed, wherever possible, to employing and supporting people who are disabled, or become disabled during their career with the Group and we welcome applications from all sections of the community. Our Equal Opportunities and Dignity at Work policies support these commitments.

More information on employees can be found on pages 38 to 39.

As well as the town halls with the Board and other methods of workforce engagement described on page 7, members of the Executive Committee and senior management host regular 'town hall' meetings to update employees on topical issues and other matters of concern to the workforce, including giving performance updates following the announcement of results or a trading update. At these updates, senior management will present on the results and the key factors affecting performance of the Group and provide an opportunity for individuals to ask questions. These 'town hall' meetings are supplemented by internal communications, including emails, internal social collaboration tools and intranet postings, which provide our entire workforce with relevant updates and further information on key issues.

Essential contracts and change of control

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

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

Going concern

The Board has 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 has 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 Statement of Financial Position and the approval of the Consolidated Financial Statements.

Viability statement

In accordance with the UK Corporate Governance Code, the directors have assessed the viability of the Group over an initial three year period and beyond after considering the longer term risks to the prospects of the business and mitigating actions that are in place. This assessment has been performed on a standalone basis.

The directors have determined that an initial three year period is an appropriate basis to provide its viability statement as the operational planning process focuses on this period and is aligned to the short-tail nature of insurance contracts that the business underwrites.

As part of assessing the Group's prospects reliance is placed on the operational planning process, which are based on the Group continuing to operate on a standalone basis. The Group prepares a three year operational plan and capital forecast along with sensitivity analysis in line with the Group's strategy. These forecasts are subject to review and challenge by the directors on at least an annual basis.

The three year cash flow forecast supports the Group's ability to sustain positive cash flows in its businesses through targeted underwriting, portfolio and distribution actions, and to pay dividends as forecast. This is further supported by the Group's credit facilities and highly liquid investment portfolio which provide further sources of short term cash if needed.

In addition, the Group, as part its Own Risk and Solvency Assessment (ORSA) process, uses stress tests to assess the capital resilience of the Group to a range of severe but plausible scenarios including a reverse stress test. In the context of the current challenging environment from Covid-19 and Brexit the scenarios reflected:

- Premium reductions from an economic downturn
- Changes and uncertainty in claims frequency and severity
- Financial relief measures for customers
- Ongoing Covid-19 and Brexit impacts, including lower economic activity, suppressed spending, business confidence, supply chain disruption and market volatility.

These tests allow the Board to review and challenge the Risk Management strategy and consider potential mitigating actions.

The directors have also considered the prospects of the Group through review of the longer term strategy as set in the Strategic Report on pages 1 to 39 and the principal risks and uncertainties that are of a longer term nature (set out on pages 28 to 31), including the impact and uncertainty as a result of the Covid-19 pandemic and Brexit. In their judgement the potential impacts such as claims inflation and supplier disruption would be covered by the circumstances envisaged under the stress test scenarios detailed above.

Based on the results of these reviews, the directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three year period of their assessment.

The Board has also assessed the impact of the offer to buy RSA from a consortium of Intact Financial Corporation and Tryg A/S. In making its recommendation to the shareholders to accept the bid, the Board considered many factors including the strategic fit of the bidders for the RSA businesses as well the proven track record of successfully integrating and creating long term value from acquisitions. Although the Board cannot be certain of the actions of the new owners, through familiarising itself with the bidders, it expects them to be responsible owners. In the event that the deal does not complete, the directors consider that the Group would remain resilient.

Greenhouse gas emission reporting

Methodology

We have reported on all sources of greenhouse gas (GHG) emissions as required by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 and the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.

Our reporting has been conducted in accordance with the World Resources Institute's GHG Protocol Corporate Accounting and Reporting Standard. We consolidate our organisational boundary according to the operational control approach, which includes emissions from all operations with 50 or more full-time equivalent employees.

Where data is not provided by an operating entity, values have been estimated using either extrapolation of intensities from similar sites within the Company or using the previous data as a proxy. All conversion factors have been sourced from recognised public sources, including the UK's Department for Business, Energy & Industrial Strategy, the International Energy Agency and the GHG Protocol's stationary combustion tool.

The adjacent figures cover the period 1 January 2020 to 31 December 2020.

Energy efficiency measures: We are reporting our Scope 2 market-based emissions for the first time this year to reflect our purchase of REGO-backed renewable electricity at UK sites where we are directly responsible for energy procurement or have engaged with landlords to switch to a renewable supply.

We have also completed energy efficiency projects at our UK offices during 2020 including the replacement of boilers in our Horsham and Manchester offices with more efficient models, and upgrading the carpark lighting to more energy efficient motion-controlled LEDs at our sites in Chelmsford and Liverpool. The boiler replacement projects are anticipated to have saved 624,000 kWh between them. The energy saving attributed to the car park lighting replacement projects is expected to save a further 15,000 kWh electricity per annum. During 2020 we also moved our office location in Glasgow to more energy efficient premises.

A significant proportion of the overall reduction in emissions and energy use during 2020 has been due to restrictions on business travel caused by the Covid-19 pandemic; we aim to take these learnings on board to avoid a rebound in emissions although we expect these to be higher in future years.

tCO2e emissions	2020	2019[1]	2018[1]	2017[1]	2016[1]
Scope 1[2]	**3,104** [A]	3,642	3,188	3,490	3,364
Scope 2 (location-based[LB])	**5,580** [A]	6,554	7,508	9,266	11,243
Scope 2 (market-based[MB])	**5,047**	N/A	N/A	N/A	N/A
Scope 3[2]	**2,393**	7,614	10,157	11,611	12,738
Business travel	**1,732** [A]	6,969	9,475	10,891	11,575
Total emissions (scope 1, 2, 3)[LB]	**11,077**	17,810	20,853	24,367	27,345
Total emissions (scope 1, 2, 3)[MB]	**10,544**	N/A	N/A	N/A	N/A
Intensity ratio: Gross tonnes CO_2e per FTE [LB]	**0.94**	1.44	1.70	1.93	2.04
Gross tonnes CO_2e per FTE [MB]	**0.89**	N/A	N/A	N/A	N/A

Global energy use (kWh)	2020	2019
Electricity, district heating and cooling	**34,240,230**	36,774,920
Gas consumption	**12,717,980**	14,827,510
Transportation – vehicles	**6,512,530**	10,406,590
Total energy use	**53,470,740**	62,009,020

Notes:

The emissions reported above have been restated versus numbers previously disclosed, in accordance with GHG Protocol guidelines.

1. Calculations have been amended to include data that was not available at the time of publication and reflect improvements in methodology (including updated emissions factors).
2. We have reclassified emissions associated with use of hire vehicles in Denmark from scope 3 emissions to scope 1 emissions in all years to reflect the fact that these are company cars and enable a fair comparison year on year.

A. Indicates values independently assured by PwC in accordance with ISAE 3000 (Revised) and ISAE 3410. For further information, please refer to our reporting criteria and PwC's assurance opinion which can be found on our Corporate Responsibility pages at www.rsagroup.com/responsibility.

The GHG referenced in the table cover:

Scope 1: Direct emissions from the Group's activities, including natural gas consumption, diesel and company-owned vehicles.

Scope 2: Indirect emissions from purchased electricity, district cooling and district heating. This year we are reporting scope 2 emissions according to two different methodologies ('dual reporting'): (i) the location-based method, using average emissions factors for the country in which the reported operations take place; and (ii) the market-based method, which uses the actual emissions factors of the energy procured.

Scope 3: Emissions relating to RSA activities not within our direct control, including business travel, water supply, wastewater treatment, paper consumption and waste generated.

Business travel: Emissions from flights, trains and vehicles not owned by the organisation.

Modern slavery

As per section 54(1) of the Modern Slavery Act 2015, our Slavery and Human Trafficking Statement is published annually on our Group website. The statement covers the activities of RSA Insurance Group plc and its subsidiaries and details policies, processes and actions we have put in place to ensure that appropriate steps are taken to protect against slavery and human trafficking in our supply chains and all parts of our own business.

Political donations

During the year the Group did not make any donations to political parties or independent election candidates. Each year the Company proposes a resolution authorising political expenditure up to £100,000 for each of donations to political parties and independent election candidates, donations to political organisations and incurring political expenditure.

This resolution is proposed in the event that the funding of seminars, functions and charitable donations by the Group may be regarded as political in nature.

Registered shareholdings by size as at 31 December 2020

	No. of holdings	No. of shares	% of holdings	% of shares
1 and 24,999	24,746	21,401,415	97.71%	2.06%
25,000 and 99,999	241	13,211,795	0.95%	1.28%
100,000 and 499,999	161	35,438,882	0.64%	3.42%
500,000 and 999,999	55	38,907,221	0.22%	3.76%
1,000,000 and 1,999,999	48	69,671,691	0.19%	6.73%
2,000,000 and 9,999,999,999	74	856,636,606	0.29%	82.75%
Total	**25,325**	**1,035,267,610**	**100.00%**	**100.00%**

Share capital

More information on the Company's share capital can be found in Note 34 and Note 35 on pages 147 to 148. Note 35 includes a summary of the principal terms of the Company's SEK 2,500,000,000 and DKK 650,000,000 floating rate Restricted Tier 1 Contingent Convertible Notes which were issued in March 2017. The notes are convertible into Ordinary Shares of the Company upon the occurrence of certain conversion trigger events.

Preference Shareholders are only entitled to receive notice of, attend, speak and vote at general meetings if the dividend payable on the Preference Shares is in arrears at the date of the Notice, a resolution is proposed that affects the rights of the preference shareholders, a resolution is proposed to wind-up the Company, a resolution is proposed to reduce the capital of the Company (other than a redemption or purchase of shares), or in such other circumstances as the Board shall determine. In any of these situations, the Preference Shareholders may only vote on the relevant resolution and not on all the business of the general meeting.

As at 31 December 2020, the Ordinary Shares and Preference Shares represented 89% and 11% respectively of the Company's total issued share capital. Directors are limited as to the number of shares they can allot (save in respect of employee share schemes). Renewal of the directors' authorities to allot shares will be sought at the 2021 AGM, as appropriate. In addition, directors are restricted by the limits set out by the Investment Association. During 2020, the directors exercised their authorities to allot shares only in respect of employee share schemes.

The directors are not aware of any agreements between the Company's shareholders that may result in restrictions on the transfer of securities or on voting rights. The Company may purchase any of its own shares (including any redeemable shares). An authority from Ordinary Shareholders for the Company to purchase up to 103,434,708 of its own Ordinary Shares (representing 10% of its issued share capital as at 20 March 2020), was passed at the 2020 AGM. This authority will expire at the close of business on 30 June 2021 and a new authority will be sought, as applicable. The authority was not exercised during 2020. Other than the standard compulsory transfer provisions in respect of US shareholders contained in the Company's Articles of Association, there are no specific restrictions on the size of a shareholding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and legislation.

During the year, the Company operated two employee benefit trusts to hold Ordinary Shares in the Company which are used to satisfy grants under the Company's share incentive schemes. The Trustees are Link Market Service Trustees Limited (for the Share Incentive Plan Trust) and Apex Financial Services (Trust Company) Limited (for the Royal and Sun Alliance ESOP Trust No.2), respectively. The Trustees may vote in respect of any shares held in the trusts but have no obligation to do so, and the Trustees may have regard to the financial interests of the beneficiaries in exercising their voting rights over the Company's shares. A standard dividend waiver agreement is in place for the for RSA ESOP Trust No.2, an employee benefit trust, to receive dividends of 0.01 pence per share. Further information can be found on page 148 in the Notes to the Financial Statements.

Substantial share interests[1]

The table below shows the holdings of major shareholders as disclosed to the Company in accordance with the Disclosure Guidance and Transparency Rules (DTR) as at 31 December 2020 and as at 19 February 2021.

	31 December 2020			19 February 2021		
Shareholder name	**No. of voting rights**	**% of voting rights**	**Nature of holding**	No. of voting rights	% of voting rights	Nature of holding
Ameriprise Financial, Inc. and its group	**75,871,245**	**7.46%**	**Direct & Indirect**	47,836,931	4.62%	Direct & Indirect
BlackRock, Inc	**55,359,399**	**5.43%**	**Indirect & Securities Lending and CFD**	108,446,543	10.47%	Indirect & Securities Lending and CFD
Cevian Capital II G.P. Limited	**146,179,931**	**14.13%**	**Indirect**	146,179,931	14.13%	Indirect
JPMorgan Chase & Co.	**Below 3%**	**Below 3%**	**Indirect**	62,434,318	6.03%	Indirect, Financial instruments (ADRs and Right to Recall) and Cash settled equity swaps
Pentwater Capital Management LP	**n/a**	**n/a**	**n/a**	32,000,000	3.09%	Financial Instruments – CFD and TRS
Société Générale SA (SG SA)	**34,664,862**	**3.35%**	**Direct**	85,902,547	8.30%	Direct
T. Rowe Price Associates, Inc	**48,657,079**	**4.75%**	**Indirect**	48,657,079	4.75%	Indirect

Notes:
1. If the Company has not been informed that interests have changed, the last notification is included in this table.

Statement by directors

Section 414A of the Companies Act 2006 requires the directors to present a Strategic Report of the Company for the financial year ended 31 December 2020. The information that fulfils the requirements of the Strategic Report set out in section 414C of the Companies Act 2006 can be found on pages 1 to 39.

The Companies Act 2006 and the UK Listing Authority's Listing Rules and Disclosures and Transparency Rules also require the Company to provide a Directors' Report for the year ended 31 December 2020. The information that fulfils this requirement and which is incorporated by reference into, and forms part of, this report is set out on pages 1 to 91 and includes the information on financial risk management objectives and policies contained in Note 6 in the consolidated financial statements.

So far as each director of the Board is aware, there is no relevant audit information (as defined in section 418(3) of the Companies Act 2006) of which the Company's external auditor is unaware, and each director has taken all reasonable steps to make himself/herself aware of, and to establish that the external auditor is aware of, any relevant audit information.

A balanced and understandable assessment of the Group's position and prospects, and an explanation of its strategy for delivering the objectives of the Company are contained in the Strategic Report on pages 1 to 39 which includes:

- Use of financial instruments by the Company and details of financial risk management objectives and policies of the Company, including the policy for hedging each major type of forecasted transaction for which hedge accounting is used
- The Company's exposure to price risk, underwriting risk, reserving risk, credit risk, liquidity risk and cash flow risk
- An indication of likely future developments in the Company's business.

There are no activities relevant for disclosure in respect of research and development of the Company.

A full list of the Group's subsidiaries and related undertakings is in Appendix B on page 171. Further explanation of the assurances undertaken by the Group Audit Committee on behalf of the Board are set out in the Group Audit Committee Report found on pages 49 to 52. A report from the external auditor can be found on pages 94 to 101.

Management report

The Strategic Report is considered to form the management report for the purpose of DTR 4.1.8.R.

Directors' Responsibility Statement

The Directors' Responsibility Statement appears on page 93 and is incorporated by reference into this Report.

Directors' Report

The Directors' Report for the year ended 31 December 2020, was approved by order of the Board and signed on its behalf.

Charlotte Heiss
Group General Counsel and Company Secretary

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.

KPMG

	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).

KPMG

	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.

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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.

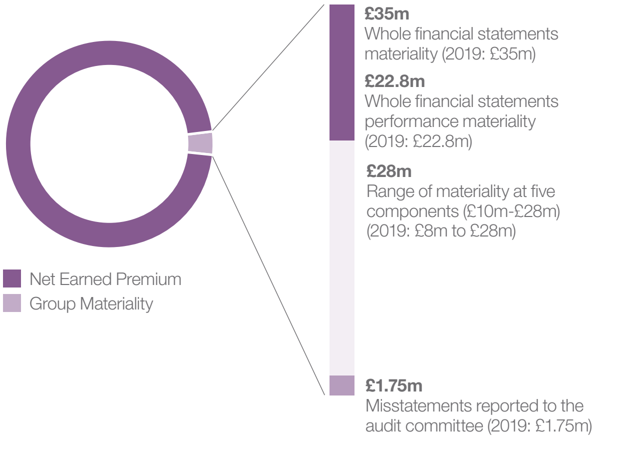
The components within the scope of our work accounted for the percentages of the group's results illustrated opposite. For the residual components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

Net Earned Premium

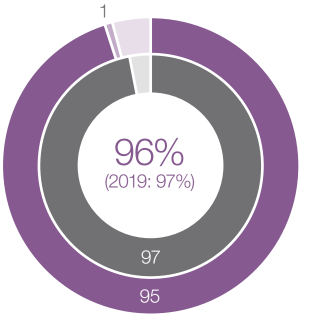
£6,199m (2019: £6,462m)

Group Materiality

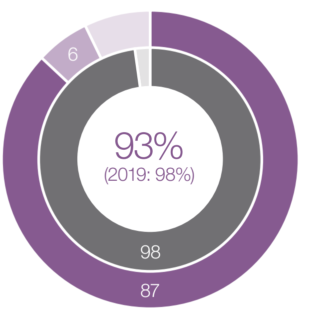
£35m (2019: £35m)



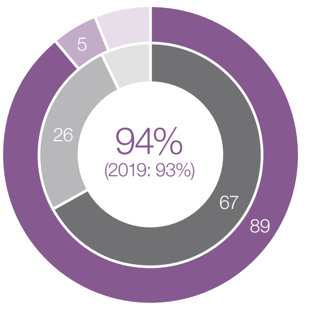
Group Net Earned Premium



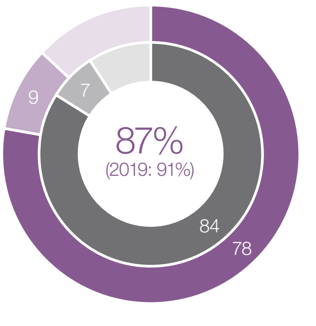
Group Insurance Contract Liabilities



Group Total Assets



Total Profits and Losses that made up Group Profit Before Tax



2020	2019	
		Full scope for group audit purposes
		Specified risk-focused audit procedures
		Residual components

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

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- 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.

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.

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).

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.

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.

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.

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).

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

					Expected to be recovered	
	At fair value through profit and loss (FVTPL) £m	Available for sale £m	Loans and receivables £m	Total £m	Within 12 months £m	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

					Expected to be recovered	
	At fair value through profit and loss (FVTPL) £m	Available for sale £m	Loans and receivables £m	Total £m	Within 12 months £m	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.

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	Available for sale investments: 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.

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.

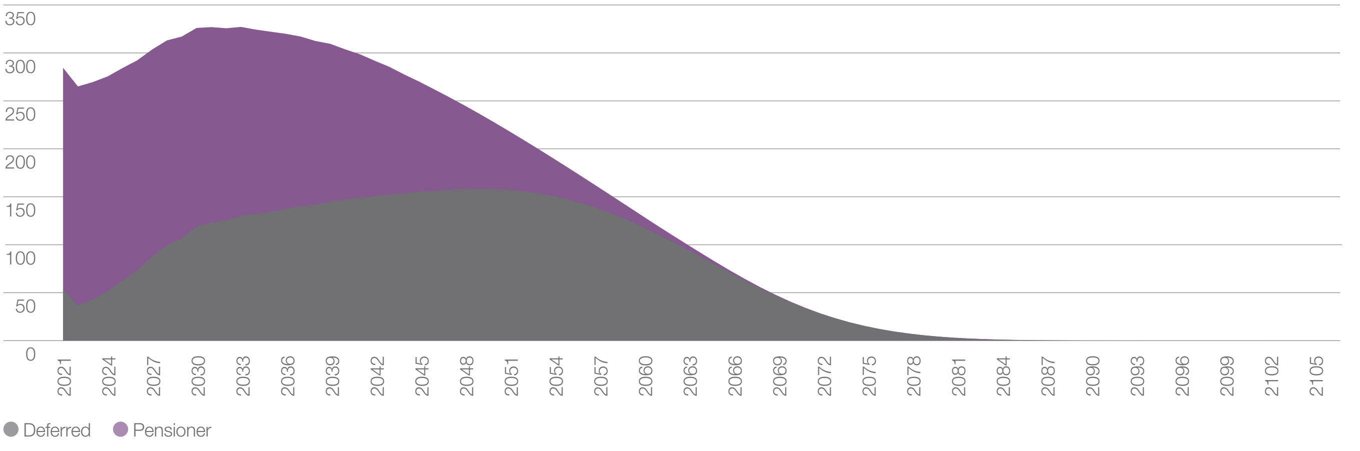
At the most recent funding valuations, the main UK funds had an aggregate funding deficit of **£468m**, equivalent to a funding level of 95%. The Group and the Trustees have agreed funding plans to eliminate the funding deficits by 2026. Details of the deficit contributions paid in 2020 and that are 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:

Cash flow – total liability £m



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

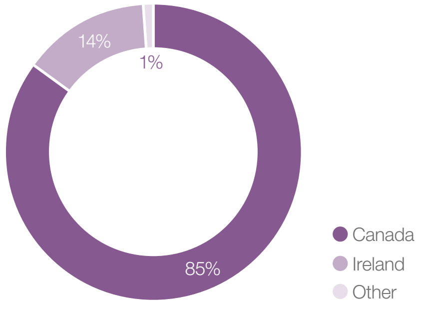
Non-UK schemes

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:

Non-UK liability split by country



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

41) Post-employment benefits and obligations continued

Assumptions

The weighted average principal actuarial assumptions used are:

	UK 2020 %	UK 2019 %	Other 2020 %	Other 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

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	

Name and country of incorporation	Registered office addresses	Class of shares held	Percentage Holding (%)
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.

Parent Company statement of comprehensive income
For the year ended 31 December 2020

	2020 £m	2019 £m
(Loss)/profit for the year net of tax	**(19)**	351
Items that may be reclassified to the income statement:		
Fair value gains/(losses) on debt securities net of tax	**11**	(2)
Items that will not be reclassified to the income statement:		
Fair value gains on investment in subsidiaries	**1,290**	510
Total other comprehensive income for the year	**1,301**	508
Total comprehensive income for the year	**1,282**	859

The loss for the year net of tax includes a tax credit of **£5m** (2019: £4m tax credit). Fair value gains/(losses) on debt securities includes a tax charge of **£2m** (2019: £nil).

Parent Company 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	Revaluation reserves £m	Capital redemption reserve £m	Retained earnings £m	Tier 1 notes £m	Total equity £m
Balance at 1 January 2019	1,027	1,087	(1)	125	1,916	389	1,009	297	5,849
Total comprehensive income for the year									
Profit for the year net of tax	–	–	–	–	–	–	351	–	351
Fair value gains net of tax	–	–	–	–	508	–	–	–	508
	–	–	–	–	508	–	351	–	859
Dividends – paid (note 8)	–	–	–	–	–	–	(242)	–	(242)
Shares issued for cash (note 12)	1	3	–	–	–	–	–	–	4
Share-based payments (note 7)	4	–	–	–	–	–	6	–	10
Transfers	–	–	1	–	–	–	(1)	–	–
Balance at 1 January 2020	**1,032**	**1,090**	**–**	**125**	**2,424**	**389**	**1,123**	**297**	**6,480**
Total comprehensive income/(expense) for the year									
Loss for the year net of tax	**–**	**–**	**–**	**–**	**–**	**–**	**(19)**	**–**	**(19)**
Fair value gains net of tax	**–**	**–**	**–**	**–**	**1,301**	**–**	**–**	**–**	**1,301**
	–	**–**	**–**	**–**	**1,301**	**–**	**(19)**	**–**	**1,282**
Dividends – paid (note 8)	**–**	**–**	**–**	**–**	**-**	**–**	**(108)**	**–**	**(108)**
Shares issued for cash (note 12)	**1**	**5**	**–**	**–**	**–**	**–**	**–**	**–**	**6**
Share-based payments (note 7)	**2**	**–**	**–**	**–**	**–**	**–**	**17**	**–**	**19**
Balance at 31 December 2020	**1,035**	**1,095**	**–**	**125**	**3,725**	**389**	**1,013**	**297**	**7,679**

The attached notes form an integral part of these Parent Company financial statements.

Parent Company statement of financial position
As at 31 December 2020

	Note	2020 £m	2019 £m
Assets			
Investments in subsidiaries	9	**6,276**	4,986
Investments in debt securities	9	**360**	341
Amounts owed by subsidiaries	6	**2,185**	2,124
Current tax assets	10	**4**	4
Deferred tax assets	10	**4**	5
Other debtors and other assets	11	**5**	5
Other assets		**2,198**	2,138
Cash and cash equivalents		**3**	5
Total assets		**8,837**	7,470
Equity and liabilities			
Equity attributable to owners of the Parent Company		**7,679**	6,480
Liabilities			
Amounts owed to subsidiaries	6	**366**	209
Issued debt	14	**751**	750
Accruals and other liabilities		**41**	31
Total liabilities		**1,158**	990
Total equity and liabilities		**8,837**	7,470

The attached notes form an integral part of these Parent Company financial statements.

The loss for the year net of tax was **£19m** (2019: £351m profit).

The Parent Company 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

Parent Company statement of cash flows
For the year ended 31 December 2020

	2020 £m	2019 £m
Cash flows from operating activities		
(Loss)/profit for the year before tax	**(24)**	347
Adjustments for non-cash movements in net profit for the year		
Share-based payments	**19**	10
Other non-cash movements	**7**	2
Changes in operating assets/liabilities		
Movement in working capital	**9**	(1)
Reclassification of investment income and interest paid	**15**	(331)
Cash generated from investments		
Dividend income	**–**	350
Interest and other investment income	**12**	6
Tax recovered	**4**	–
Net cash flows from operating activities	**42**	383
Cash flows from investing activities		
Purchase of financial assets	**(21)**	(541)
Proceeds from sales of financial assets	**10**	196
Net movement in amounts owed by subsidiaries	**96**	(114)
Repayment of issued debt from subsidiaries	**–**	32
Net cash flows from investing activities	**85**	(427)
Cash flows from financing activities		
Proceeds from issue of debt	**–**	348
Proceeds from issue of share capital	**6**	4
Dividends paid to ordinary shareholders	**(83)**	(219)
Coupon payment on Tier 1 notes	**(16)**	(14)
Dividends paid to preference shareholders	**(9)**	(9)
Redemption of debt instruments	**–**	(39)
Interest paid	**(27)**	(25)
Net cash flows from financing activities	**(129)**	46
Net (decrease)/increase in cash and cash equivalents	**(2)**	2
Cash and cash equivalents at the beginning of the year	**5**	3
Cash and cash equivalents at the end of the year	**3**	5

The attached notes form an integral part of these Parent Company financial statements.

Notes to the Parent Company financial statements

1) Basis of preparation

RSA Insurance Group plc (the Company) is incorporated in England and Wales and is the ultimate Parent Company of the RSA Group of companies. The principal activity of the Company is to hold investments in its subsidiaries and the receipt and payment of dividends.

These Parent Company financial statements 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.

Except where otherwise stated, all figures included in these Parent Company financial statements are presented in millions of pounds sterling (£m).

In accordance with section 408 of the Companies Act 2006, the Company's income statement and related notes have not been presented in these Parent Company financial statements.

2) Significant accounting estimates and judgements

In preparing these Parent Company financial statements, management has made judgements in determining 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 most significant estimate is in connection with fair valuing the investment in subsidiaries, details of which can be found in note 9.

3) Adoption of new and revised accounting standards

There are no new and revised accounting standards that have or are expected to have an impact on the Company.

4) Significant accounting policies

The accounting policies that are used in the preparation of these Parent Company financial statements are consistent with the accounting policies used in the preparation of the consolidated financial statements of the Group as set out in the consolidated financial statements, with the exception of financial instruments where the Company is not permitted to defer the application of IFRS 9 'Financial Instruments'.

The accounting policies that are specific to the Parent Company financial statements are set out below.

Investments in subsidiaries

The Company designates its investments in directly owned subsidiaries at fair value through other comprehensive income (FVOCI). The fair value is determined having regard to the Company's market capitalisation at the reporting date.

Changes in the fair value of the investments in subsidiaries are recognised directly in equity through the statement of comprehensive income and are not reclassified through profit or loss on derecognition.

Amounts owed from subsidiaries

The Company accounts for amounts owed from subsidiaries at amortised cost and determines an expected credit loss (ECL) based on those default events that are possible within 12 months after the reporting date, or where the credit risk has increased significantly since initial recognition on the basis of all possible default events over the life of debt. Specifically the probability of default is considered together with the expected subsequent loss.

It has been concluded that the value of the ECL would be insignificant and so no ECL is recognised.

Investments in debt securities

Investments in debt securities are valued at FVOCI on the basis that their contractual cash flows are solely principal and interest and the Company's business model's objective is to hold such investments to collect their contractual cash flows and for sale.

An allowance for ECL is based on those default events that are possible within 12 months after the reporting date, or where the credit risk has increased significantly since initial recognition on the basis of all possible default events over the life of debt. Specifically the probability of default is considered over the appropriate period of time together with the expected subsequent loss. For investment grade debt securities, rated BBB or above, the 'low credit risk exemption' available within IFRS 9 has been applied. For these assets, it is assumed that credit risk has not increased significantly since initial recognition. As at the balance sheet date, all of the Company's debt securities are investment grade and expected credit losses are not significant and so no ECL is recognised.

On disposal of debt securities any related balance within the FVOCI reserve will be reclassified to the income statement.

Dividend income

Dividend income from investment in subsidiaries is recognised when the right to receive payment is established.

Interest income

Interest income is recognised using the effective interest rate method.

5) Risk and capital management

The Company's key risks are considered to be the same as those faced by the Group. Details of the key risks to the Group and the steps taken to manage them are disclosed in the risk and capital management section (note 6) of the consolidated financial statements.

6) Related party transactions

The following transactions were carried out with related parties:

RSA Insurance Group plc provides services and benefits to its subsidiary companies operating within the UK and overseas as follows:

- Provision of technical support in relation to risk management, information technology and reinsurance services. Services are charged for annually on a cost plus basis, allowing for a margin of **7%** (2019: 6%).
- Issue of share options and share awards to employees of subsidiaries. Costs are charged for annually, based on the underlying value of the awards granted calculated in accordance with the guidance set out within IFRS 2.

The amounts charged in respect of these services to the Company's subsidiaries totalled **£60m** (2019: £55m).

Key management 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

Other transactions

Interest is receivable on interest bearing loans to subsidiaries, which are repayable on 24 hours written notice. The rates of interest charged during the period are at three months LIBOR plus margins ranging from 0.60% to 2.50%.

Interest is payable on interest bearing loans from subsidiaries, which are repayable on 24 hours written notice. The rates of interest charged during the period are at three months LIBOR plus margins ranging from 0.40% to 2.00%.

Interest income from subsidiaries is **£26m** (2019: £35m), and interest charged to subsidiaries is **£1m** (2019: £2m).

Royal & Sun Alliance Insurance plc (RSAI), a subsidiary of the Company, has provided guarantees to the Company's creditors for amounts arising from its issued debt agreements (as set out in note 37 to the consolidated financial statements) and for amounts arising from its committed credit facilities (as set out in note 38 to the consolidated financial statements). The guarantees relating to the issued debt agreements are subordinated to all other creditors of RSAI.

Related party balances

Year end balances with related parties are set out below:

	2020 £m	2019 £m
Receivable from related parties:		
Receivable from subsidiaries, interest bearing loans	1,857	1,857
Receivable from subsidiaries, non interest bearing loan	328	267
Total receivable from related parties	**2,185**	2,124
Payable to related parties:		
Payable to subsidiaries, interest bearing loans	189	36
Payable to subsidiaries, non interest bearing loan	177	173
Total payable to related parties	**366**	209

7) Share-based payments

Full details of share-based compensation plans are provided in note 19 to the consolidated financial statements.

8) Dividends paid and proposed

Full details of the dividends paid and proposed by the Company are set out in note 21 to the consolidated financial statements.

9) Investments

	Debt securities £m	Subsidiaries £m	Total £m
Investments at 1 January 2019	–	4,509	4,509
Purchases	541	–	541
Disposals	(196)	–	(196)
Settlement of loan by subsidiary	–	(33)	(33)
Total (losses)/gains recognised in:			
Income statement	(2)	–	(2)
Other comprehensive income	(2)	510	508
Investments at 31 December 2019	**341**	**4,986**	**5,327**
Purchases	**21**	**–**	**21**
Disposals	**(10)**	**–**	**(10)**
Total (losses)/gains recognised in:			
Income statement	**(6)**	**–**	**(6)**
Other comprehensive income	**14**	**1,290**	**1,304**
Investments at 31 December 2020	**360**	**6,276**	**6,636**

Investments in subsidiaries

The investments in subsidiaries are recognised in the statement of financial position at fair value measured in accordance with the Company's accounting policies. The Company's investments in subsidiaries are classified as level 2 financial assets. Fair value of the Company's significant subsidiary, Royal Insurance Holdings Limited, is determined by reference to the market value (derived from relevant indices) of the Company's ordinary shares and issued debt instruments at the end of the reporting period, being the most transparent independent available indicator. The market value is adjusted for the fair value of the Company's preference shares, assets and liabilities, excluding directly owned subsidiaries. The adjusting items have been fair valued by determining the present value of future cash flow projections including projected central costs, using an appropriate arm's length discount rate. The remaining subsidiaries are held at fair value which has been determined to be net asset value.

The directors believe that the methodology used supports the inclusion of the investments in subsidiaries in the statement of financial position, at the fair values ascribed to them. The market value of the Company's ordinary shares at 31 December 2020 was **677.40p**. A movement of 5% in the share price would have an impact of **£351m** on the fair value.

Full details of the principal subsidiaries of the Company are set out in Appendix B to the consolidated financial statements.

Investments in debt securities

The investments in debt securities, all of which are listed, are classified at fair value through other comprehensive income (FVOCI) and at 31 December were neither past due nor impaired and comprise of securities with the following investment grades.

	2020 £m	2019 £m
AA	**21**	13
A	**102**	109
BBB	**237**	219
	360	341

Details about the methods and assumptions used to fair value debt securities are provided in note 27 to the consolidated financial statements. Under the fair value hierarchy, **£3m** of the investments in debt securities are classified as level 1 financial assets (2019: £3m) and **£357m** are classified as level 2 (2019: £338m).

Loss allowance

The loss allowance for debt securities at FVOCI is recognised in the income statement and reduces the fair value otherwise recognised in other comprehensive income. The loss allowance at 31 December 2020 is **£nil** (2019: £nil).

10) Current and deferred tax

Current tax

	Asset		Liability	
	2020 £m	2019 £m	**2020 £m**	2019 £m
To be settled within 12 months	**4**	4	**–**	–

The current tax relating to items that are (charged)/credited directly to equity is **£nil** (2019: £nil).

Deferred tax

Deferred tax for the current year is based on a rate of 19% (2019: 17%). The following are the major deferred tax assets recognised by the Company and movements during the year:

	2020 £m	2019 £m
Depreciation in excess of capital allowances	**5**	5
Provisions and other temporary differences	**(1)**	–
Net deferred tax position at 31 December	**4**	5

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

	2020 £m	2019 £m
Net deferred tax position at 1 January	**5**	4
Amount credited to income statement	**1**	1
Amount charged to other comprehensive income	**(2)**	–
Net deferred tax position at 31 December	**4**	5

No deferred tax has been recognised in respect of **£18m** (2019: £21m) of deferred tax reliefs due to the unpredictability of future profit streams.

Net deferred tax assets of **£4m** (2019: £5m) that relate to tax jurisdictions in which the Company has suffered a loss in either the current or preceding period, have been recognised on the basis that future taxable profits will be available against which these can be utilised. The evidence for the future taxable profits is a forecast consistent with the three year operational plans prepared by the relevant businesses, which are subject to internal review and challenge. Where relevant, the forecast includes extrapolations of the operational plans using assumptions consistent with those used in the plans.

11) Other debtors and other assets

	2020 £m	2019 £m
Prepayments and accrued income - to be settled within 12 months	**5**	5
Total other debtors and other assets	**5**	5

12) Share capital

Full details of the share capital of the Company are set out in note 34 to the consolidated financial statements.

13) Tier 1 notes

Full details of the Tier 1 notes are set out in note 35 to the consolidated financial statements.

14) Issued debt

Full details of the issued debt of the Company are set out in note 37 to the consolidated financial statements.

Jargon buster and alternative performance measures

Alternative performance measures

Alternative performance measures (APMs) are complementary to measures defined within International Financial Reporting Standards (IFRS) and are used by management to explain the Group's business performance and financial position. They include common insurance industry metrics, as well as measures that management and the Board consider are useful to enhance the understanding of its performance and allow meaningful comparisons between periods and business segments. The APMs reported are monitored consistently across the Group to manage performance on a monthly basis. They are reviewed across various functions and undergo rigorous internal quality assurance.

Occasionally management may also report additional or adjusted APMs when circumstance requires. Reasons for doing so, definitions and reconciliations are provided in this appendix. In Q4 2018 targeted portfolio exits were announced as part of an ongoing strategic review of the UK & International business which concluded in 2019. The Group continues to be impacted by exits in 2020 due to the ongoing run-off of exposures. Therefore, APMs, continue to be reported both including and excluding the impacts of the UK&I exited portfolios to provide measures that allow users to assess the future performance of UK&I and the Group.

APMs are identifiable within Group tables by the symbol ◊ and are defined in the below jargon buster. Further definition, commentary, and outlook of those APMs considered important in measuring the delivery of the Group's strategic priorities can be found on pages 16 and 17. Detailed reconciliations of APMs to their nearest IFRS Income Statement equivalents and adjusted APMs can be found after the jargon buster. APMs used to determine management and executive remuneration are identified below with ◊*.

Jargon buster

Term	Definition	APM	Reconciliation	
Affinity	Selling insurance through a partner's distribution network, usually to a group of similar customers e.g. store-card holders, alumni groups, unions and utility company customers.			
Attritional Loss Ratio	This is the claims ratio (net incurred claims and claims handling expense as a proportion of net earned premium) of our business prior to volatile impacts from weather, large losses and prior-year reserve developments.	◊	1	R
Available for Sale (AFS)	A class of financial asset that is neither held for trading nor held to maturity.			
Business Operating Result	Business operating result represents profit before tax adjusted to add back other charges.	◊	1	AC
Claims Frequency	Average number of claims per policy over the year.			
Claims Handling Expenses	The administrative cost of processing a claim (such as salary costs, costs of running claims centres, allocated share of the costs of head office units) which are separate to the cost of settling the claim itself with the policyholder.			
Claims Ratio (Loss Ratio)	Percentage of net earned premiums that is paid out in claims and claims handling expenses.	◊	1	V
Claims Reserve (Provision for Losses and Loss Adjustment Expenses)	A provision established to cover the estimated cost of claims payments and claims handling expenses that are still to be settled and incurred in respect of insurance cover provided to policyholders up to the reporting date.			
Claims Severity	Average cost of claims incurred over the period.			
Combined Operating Ratio (COR)	A measure of underwriting performance being the ratio of underwriting costs (claims, commissions and expenses) expressed in relation to earned premiums: COR = loss ratio + commission ratio + expense ratio, where Loss ratio = net incurred claims/net earned premiums Commission ratio = commissions/net earned premiums Expense ratio = operating expenses/net earned premiums	◊*	1	Y
Commission	An amount paid to an intermediary such as a broker for introducing business to the Group.			
Constant FX (CFX)	Prior period comparative retranslated at current period exchange rates.	◊	4	
Controllable Costs/ Expenses	A measure of operating expenses incurred by the Group in undertaking business activities, predominantly underwriting and policy acquisition costs, excluding commission and premium related costs such as levies. They are adjusted to include claims handling costs that are reported within net claims incurred.	◊*	5	
Current Year Underwriting Result	The profit or loss earned from business for which insurance cover has been provided during the current financial period. This does not include performance impacts recognised in the current reporting period relating to prior accident years.	◊	1	Q
Current Year Combined Operating Ratio (CY COR)	A measure of current year underwriting result performance calculated as per the combined operating ratio.			
Customer Retention	A measure of the amount of business that is renewed with us each year.			
Ex. Exits	Excluding exits refers to financial results adjusted for the impact of UK&I portfolio exits and business lapses targeted as part of the UK&I strategic review that concluded in 2019.		7	
Expense Ratio	Underwriting and policy expenses expressed as a percentage of net earned premium.	◊	1	X
Exposure	A measurement of risk we are exposed to through the premiums we have written. For example, in motor insurance one vehicle insured for one year is one unit of exposure.			
Financial Conduct Authority (FCA)	The regulatory authority with responsibility for the conduct of the UK financial services industry.			

Jargon buster continued

Term	Definition	APM	Reconciliation	
Gross Written Premium (GWP)	Total revenue generated through sale of insurance products. This is before taking into account reinsurance and is stated irrespective of whether payment has been received.			
Group Catastrophe programme (Cat)	Reinsurance purchased by the Group to protect against a catastrophic event, usually a large number of losses accumulating over a short period of time. Losses can arise worldwide from either natural peril, for example hurricane, windstorm, flood and earthquake, or from man-made perils, for example explosion, fire. Individual losses are aggregated and, when the respective Catastrophe retention is exceeded, a reinsurance recovery is made.			
Group Volatility Cover (GVC)	This is an aggregate reinsurance cover purchased by the Group to protect against the accumulation of "smaller/medium" single or event type losses. In 2020, individual large losses and catastrophe events are covered in full if they exceed the £10m franchise level. In 2021, the qualifying criteria for catastrophe losses remains unchanged but individual large losses now qualify based on a £5m excess (the £10m in / out trigger no longer applies for large losses). GVC reinsurers get the inuring benefit of our main excess of loss programmes. Cover attaches once the aggregate deductible is breached. This reinsurance provides protection world-wide for all short tail classes of business other than marine large losses.			
IBNR (Incurred But Not Yet Reported)	An estimated reserve for amounts owed to all valid claimants who have had a covered loss but have not yet reported it and for claims that have been reported but the cost is not yet known.			
Interest Costs	Interest costs represent the cost of Group debt.			
Investment Result	Investment result is the money we make from our investments on a management basis. It comprises the major component of net investment return, investment income, in addition to unwind of discount and investment expenses.	◊	1	AA
Large Losses	Single claim or all claims arising from a single loss event with a net cost of £0.5m or higher.			
Large Loss Ratio	The large loss ratio is an expression of claims incurred in the period with a net cost of £0.5m or higher as a percentage of current year net earned premium over the same period.	◊	1	T
Managing General Agent (MGA)	A specialised type of insurance agent or broker that has been granted underwriting authority by an insurer and can negotiate contracts on behalf of the insurer.			
Net Asset Value (NAV) per Share	Net asset value per share is calculated as closing ordinary shareholders' funds (equity attributable to owners of the Parent Company less tier 1 notes and preference share capital) divided by the number of shares in issue at the end of the period.	◊	3	E
Net Earned Premium (NEP)	The proportion of premium written, net of the cost of associated reinsurance, which represents the consideration charged to policyholders for providing insurance cover during the reporting period.			
Net Incurred Claims (NIC)	The total claims cost incurred in the period less any share that is borne by reinsurers. It includes both claims payments and movements in claims reserves and claims handling expenses in the period.			
Net Written Premium (NWP)	Premium written or processed in the period, irrespective of whether it has been paid, less the amount shared with reinsurers.			
Other Charges	Other charges represents items that are excluded to arrive at business operating result and underlying profit measures.	◊	1	AD

Item	Reason for classification	APM	Reconciliation	
Amortisation of intangible assets	To allow meaningful assessment of segmental performance where similar internally generated assets are not capitalised.			
Economic assumption changes	To allow assessment of performance excluding the impact of changes in the discount rate on long-term insurance liabilities.			
Gains and losses arising from the disposal of businesses and impairment of goodwill	To allow assessment of the performance of ongoing business activities.	◊	1	AD
Pension administration and net interest costs	Costs that are dependent on the level of defined benefit pension scheme plan funding and arise from servicing past pension commitments.			
Realised and unrealised gains and losses on investments/ foreign exchange gains and losses	To remove the impact of market volatility and investment rebalancing activity.			
Reorganisation and transaction costs	To allow assessment of the performance of ongoing business activities.			

Jargon buster continued

Term	Definition	APM	Reconciliation	
Payout Ratio	Ordinary dividends expressed as a percentage of underlying profit after tax attributable to ordinary shareholders. This has also been expressed excluding the impact of UK&I exits.			
Policies in Force	The number of active insurance policies for which the Group is providing cover.			
Prior Year Underwriting Result	Updates to premium, claims, commission and expense estimates relating to prior years.	◊	1	P
Property and Casualty (P&C) (Non-Life Insurance or General Insurance)	Property insurance covers loss or damage through fire, theft, floods, storms and other specified risks. Casualty insurance primarily covers losses arising from accidents that cause injury to other people or damage to the property of others.			
Prudential Regulation Authority (PRA)	The regulatory authority with responsibility for the prudential regulation and supervision of the UK financial services industry.			
Pull to Par	The movement of a bond's price toward its face value as it approaches its maturity date.			
Rate	The price of a unit of insurance based on a standard risk for one year. Actual premium charged to the policyholder may differ from the rate due to individual risk characteristics and marketing discounts.			
'Record' underwriting performance	'Record' refers to the highest underwriting result and lowest COR this century when comparing performance on a like for like basis (with central costs consistently allocated to the underwriting result pre 2013 back to 2000).			
Reinsurance	The practice whereby part or all of the risk accepted is transferred to another insurer (the reinsurer).			
Reported FX (RFX)	Prior period comparative translated at exchange rates applicable at that time.			
Return on Equity	Profit attributable to ordinary shareholders (profit after tax excluding non-controlling interests, coupon on tier 1 notes and preference dividend) expressed in relation to opening ordinary shareholders' funds (equity attributable to owners of the Parent Company less tier 1 notes and preference share capital).	◊	2	F
Return on Tangible Equity	Profit attributable to ordinary shareholders (profit after tax excluding non-controlling interests, coupon on tier 1 notes and preference dividend) expressed in relation to opening tangible net asset value.	◊	2	H
Solvency II/Coverage Ratio	Capital adequacy regime for the European insurance industry which commenced in 2016 and is based on a set of EU wide capital requirements and risk management standards. The coverage ratio represents total eligible capital as a proportion of the Solvency Capital Requirement (SCR) under Solvency II.			
Scrip Dividend	Where shareholders choose to receive the dividend in the form of additional shares rather than cash. The Group would issue new shares to meet the scrip demand.			
Tangible Net Asset Value (TNAV)	Tangible net asset value comprises equity attributable to owners of the Parent Company, less tier 1 notes, preference share capital and goodwill and intangible assets.	◊*	3	C
Tangible Net Asset Value (TNAV) per Share	Tangible net asset value, divided by the number of shares in issue at the end of the period.	◊	3	F
Underwriting Result	Net earned premium less net claims and underwriting and policy acquisition costs.	◊	1	Z
Underlying Profit before Tax	Profit before tax adjusted for the add back of all other charges except finance costs.	◊	6	B
Underlying Tax Rate	The Group underlying tax rate mainly comprising the local statutory tax rates in the Group's territories applied to underlying regional profits (business operating profits less finance costs).	◊	6	A
Underlying Profit after Tax	Profit after tax, less the proportion that is attributable to non-controlling interests, preference shareholders and tier 1 note holders, plus the add back of all other charges except finance costs (reasons for exclusion above) before an adjustment for the tax difference between effective and underlying rate.	◊*	2	B
Underlying Return on Tangible Equity	Underlying profit after tax expressed in relation to opening tangible net asset value.	◊*	2	I
Underlying Return on Equity	Underlying profit after tax expressed in relation to opening ordinary shareholders' funds (equity attributable to owners of the Parent Company less tier 1 notes and preference share capital).	◊	2	G
Underlying Earnings per Share (EPS)	Underlying profit after tax divided by the weighted average number of shares in issue during the period.	◊	2	K
Unearned Premium	The portion of a premium that relates to future periods, for which protection has not yet been provided, irrespective of whether the premium has been paid or not.			
Volatility Adjustment	A measure calculated by the PRA that adjusts the risk-free discount rate used to value Solvency II Technical Provisions, in order to mitigate the effect of short-term credit spread volatility on insurers' solvency positions. It is calibrated as 65% of the risk-adjusted spread of assets in a representative portfolio.			
Weather Losses	Weather claims incurred with a net cost of £0.5m or higher and losses of less than £0.5m where extreme weather has been identified over an extended period.			
Weather Loss Ratio	The weather loss ratio is an expression of weather losses in the period as a percentage of earned premium.	◊	1	S
Yield	Rate of return on an investment in percentage terms. The dividend payable on a share expressed as a percentage of the market price.			

Alternative performance measures reconciliations

1. IFRS reconciliation to management P&L

For the 12 months ended 31 December 2020

£m	IFRS		Underwriting result	Investment result	Central costs	Business operating result	Other charges	Profit before tax
			Management					
Income								
Gross written premiums	7,282		7,282					
Less: reinsurance premiums	(1,059)		(1,059)					
Net written premiums	6,223		6,223					
Change in the gross provision for unearned premiums	6		6					
Change in provision for unearned reinsurance premiums	(30)		(30)					
Change in provision for unearned premiums	(24)		(24)					
Net earned premiums, analysed as	6,199	A	6,199					
Current year		B	6,210					
Prior year		C	(11)					
			6,199					
Investment income	258	D		258				
Realised gains on investments	6						6	
Gains on exchange derivatives	9						9	
Unrealised losses on investments	(24)						(24)	
Investment impairments	(32)						(32)	
Net investment return	217							
Other insurance income	129	E	129					
Pension net interest and administration costs	1						1	
Other operating income	130							
Total income	6,546							
Expenses								
Gross claims incurred	(4,521)		(4,521)					
Less: claims recoveries from reinsurers	631		631					
Net claims, analysed as	(3,890)	F	(3,890)					
Attritional		G	(3,138)					
Weather		H	(144)					
Large		I	(629)					
Prior year		J	21					
			(3,890)					
Earned CY commission	(803)	K	(803)					
Earned PY commission	(5)	L	(5)					
Earned CY operating expenses	(1,116)	M	(1,116)					
Earned PY operating expenses	(12)	N	(12)					
Underwriting and policy acquisition costs	(1,936)		(1,936)					
Unwind of discount and change in economic assumptions	(39)			(31)			(8)	
Investment expenses	(14)			(14)				
Central expenses	(13)				(13)			
Amortisation of intangible assets	(11)						(11)	
Impairment of goodwill	(14)						(14)	
Foreign exchange losses	(16)						(16)	
Reorganisation costs	(78)						(78)	
Transaction costs	(14)						(14)	
Other operating expenses	(160)							
	(6,025)							
Interest costs	(27)						(27)	
Interest on lease liabilities	(6)						(6)	
Finance costs	(33)	O					(33)	
Acquisitions and disposals	(6)						(6)	
Net share of profit after tax of associates	1				1			
Profit before tax	483		502	213	(12)	703	(220)	483
Income tax expense	(119)		**Z**	**AA**	**AB**	**AC**	**AD**	
Profit for the year	364							
	C+J+L+N	P	(7)	PY Underwriting				
	Z – P	Q	509	CY Underwriting				
			502					
Attritional loss ratio	G/B	R	50.6%					
Weather loss ratio	H/B	S	2.3%					
Large loss ratio	I/B	T	10.1%					
Prior year effect on loss ratio	V-R-S-T	U	(0.2%)					
Loss ratio	F/A	V	62.8%					
Commission ratio	(K+L)/A	W	13.0%					
Expense ratio	(E+M+N)/A	X	16.1%					
Combined operating ratio	V+W+X	Y	91.9%					

Alternative performance measures reconciliations continued

1. IFRS reconciliation to management P&L continued

For the 12 months ended 31 December 2019

£m	IFRS		Underwriting result	Investment result	Central costs	Business operating result	Other charges	Profit before tax
					Management			
Income								
Gross written premiums	7,461		7,461					
Less: reinsurance premiums	(1,044)		(1,044)					
Net written premiums	6,417		6,417					
Change in the gross provision for unearned premiums	34		34					
Change in provision for unearned reinsurance premiums	11		11					
Change in provision for unearned premiums	45		45					
Net earned premiums, analysed as	6,462	A	6,462					
Current year		B	6,442					
Prior year		C	20					
			6,462					
Investment income	306	D		306				
Realised gains on investments	15						15	
Gains on exchange derivatives	1						1	
Unrealised losses on investments	(26)						(26)	
Net investment return	296							
Other insurance income	135	E	135					
Pension net interest and administration costs	4						4	
Foreign exchange gain	1						1	
Other operating income	140							
Total income	6,898							
Expenses								
Gross claims incurred	(5,059)		(5,059)					
Less: claims recoveries from reinsurers	727		727					
Net claims, analysed as	(4,332)	F	(4,332)					
Attritional		G	(3,540)					
Weather		H	(167)					
Large		I	(645)					
Prior year		J	20					
			(4,332)					
Earned CY commission	(830)	K	(830)					
Earned PY commission	(1)	L	(1)					
Earned CY operating expenses	(1,081)	M	(1,081)					
Earned PY operating expenses	(7)	N	(7)					
Underwriting and policy acquisition costs	(1,919)		(1,919)					
Unwind of discount and change in economic assumptions	(46)			(31)			(15)	
Investment expenses	(12)			(12)				
Central expenses	(13)				(13)			
Amortisation of intangible assets	(12)						(12)	
Reorganisation costs	(27)						(27)	
Other operating expenses	(64)							
	(6,361)							
Interest costs	(25)						(25)	
Interest on lease liabilities	(7)						(7)	
Finance costs	(32)	O					(32)	
Acquisitions and disposals	(14)						(14)	
Net share of profit after tax of associates	1				1			
Profit before tax	492		346	263	(12)	597	(105)	492
Income tax expense	(109)		**Z**	**AA**	**AB**	**AC**	**AD**	
Profit for the year	383							
	C+J+L+N	P	32	PY Underwriting				
	Z – P	Q	314	CY Underwriting				
			346					
Attritional loss ratio	G/B	R	55.0%					
Weather loss ratio	H/B	S	2.6%					
Large loss ratio	I/B	T	10.0%					
Prior year effect on loss ratio	V-R-S-T	U	(0.6%)					
Loss ratio	F/A	V	67.0%					
Commission ratio	(K+L)/A	W	12.9%					
Expense ratio	(E+M+N)/A	X	14.7%					
Combined operating ratio	V+W+X	Y	94.6%					

Alternative performance measures reconciliations continued

2. Metric calculations

			2020 £m	2019 £m
		Profit after tax	**364**	**383**
		Less: non-controlling interest	(19)	(24)
Note 21		Less: tier 1 notes coupon payment	(16)	(14)
Note 21		Less: preference dividend	(9)	(9)
	A	**Profit attributable to ordinary shareholders**	**320**	**336**
APM Rec 1		Add: other charges	220	105
APM Rec 1		Less: finance costs	(33)	(32)
APM Rec 6		Less: underlying tax differential	(21)	(3)
	B	**Underlying profit after tax attributable to ordinary shareholders**	**486**	**406**
		Opening equity attributable to owners of the Parent Company	**4,169**	**4,083**
		Less: tier 1 notes	(297)	(297)
		Opening shareholders' funds	**3,872**	**3,786**
		Less: preference share capital	(125)	(125)
	C	**Opening ordinary shareholders' funds**	**3,747**	**3,661**
Note 23		Less: opening goodwill and intangibles	(837)	(794)
	D	**Opening tangible ordinary shareholders' funds**	**2,910**	**2,867**
	E	**Weighted average no. shares during the period (un-diluted)**	**1,034**	**1,031**
		Return on equity		
A/C	**F**	**Reported**	**8.5%**	**9.2%**
B/C	**G**	**Underlying**	**12.9%**	**11.1%**
		Return on tangible equity		
A/D	**H**	**Reported**	**11.0%**	**11.7%**
B/D	**I**	**Underlying**	**16.7%**	**14.2%**
APM Rec 7	**J**	**Underlying ex exits**	**18.2%**	**16.0%**
		Earnings per share		
A/E	**K**	**Basic earnings per share**	**30.9p**	**32.6p**
B/E	**L**	**Underlying earnings per share**	**47.0p**	**39.4p**
APM Rec 7	**M**	**Underlying earnings per share ex exits**	**51.2p**	**44.5p**

Alternative performance measures reconciliations continued

3. Balance sheet reconciliations

			2020 £m	2019 £m
		Closing equity attributable to owners of the Parent Company	**4,564**	**4,169**
		Less: tier 1 notes	(297)	(297)
		Closing shareholders' funds	**4,267**	**3,872**
		Less: preference share capital	(125)	(125)
	A	**Ordinary shareholders funds**	**4,142**	**3,747**
Note 23		Less: closing goodwill and intangibles	(868)	(837)
	B	**Tangible net asset value**	**3,274**	**2,910**
Note 34	**C**	**Shares in issue at the period end**	1,035	1,032
A/C	**D**	**Net asset value per share**	**400p**	**363p**
B/C	**E**	**Tangible net asset value per share**	**316p**	**282p**

4. Net written premium movement and constant exchange

			2020 £m	2019 £m
Note 9	**A**	**Net written premiums**	**6,223**	**6,417**
		Year-on-year movement	(194)	(53)
		Comprised of:		
		Volume change including portfolio actions and reinsurance	(551)	(373)
		Rate increases	353	330
	B	**Movement at constant exchange**	**(198)**	**(43)**
	C	Foreign exchange	4	(10)
		Total movement	**(194)**	**(53)**
B/(2019A-C)	**D**	**% movement at constant exchange**	**(3)%**	**(1)%**

Alternative performance measures reconciliations continued

5. Controllable expenses

			2020 £m	2019 £m
		Underwriting and policy acquisition costs	**(1,936)**	**(1,919)**
APM Rec 1		Less: commission	808	831
		Less: non controllable premium related costs e.g. levies	150	146
		Add: claims expenses within net claims	(389)	(379)
		Add: other[1]	28	(25)
	A	**Written controllable expense base**	**(1,339)**	**(1,346)**
	B	Add: controllable deferred acquisition costs	–	(4)
A+B	C	**Earned controllable expense base**	**(1,339)**	**(1,350)**
APM Rec 1	D	Add: investment expenses	(14)	(12)
APM Rec 1	E	Add: central costs	(13)	(13)
A+D+E	F	**Total written controllable expense base**	**(1,366)**	**(1,371)**
C+D+E	G	**Total earned controllable expense base**	**(1,366)**	**(1,375)**
APM Rec 1	H	Net written premiums	6,223	6,417
APM Rec 1	J	Net earned premiums	6,199	6,462
	K	Adjustment[1]	21	–
H+K	L	Net written premiums adjusted	**6,244**	**6,417**
J+K	M	Net earned premiums adjusted	**6,220**	**6,462**
A/L	N	**Written controllable expense ratio**	**21.4%**	**21.0%**
F/L	P	**Total written controllable expense ratio**	**21.9%**	**21.4%**
C/M	Q	**Earned controllable expense ratio**	**21.5%**	**20.9%**
G/M	R	**Total earned controllable expense ratio**	**22.0%**	**21.3%**

1. Includes add back of £10m expenses (within 'other') and £21m net written and net earned premium reductions recognised in 2020 in respect of aged debtor remediation in Sweden.

6. Underlying tax rate

			2020 %	2019 %
		Effective tax rate (ETR)	**25**	**22**
		Less tax effect of:		
		Unrecognised tax losses	(2)	(2)
		Underlying versus IFRS regional profit mix	(2)	(1)
		Non-deductible other charges	(2)	–
		UK tax rate change	2	–
		Other	–	1
	A	**Underlying tax rate**	**21**	**20**

			£m	£m
		Profit before tax	**483**	**492**
APM Rec 1		Add: other charges	220	105
APM Rec 1		Less: finance costs	(33)	(32)
	B	**Underlying profit before tax**	**670**	**565**
AxB	C	**Underlying tax**	**(140)**	**(112)**
APM Rec 1	D	Income tax expense	(119)	(109)
C-D	E	**Underlying tax differential**	**(21)**	**(3)**

Alternative performance measures reconciliations continued

7. Adjusted APMs

Management report adjusted APMs when circumstance requires to further enhance understanding of reported results and of future performance potential.

Impact of UK&I exits

£m (unless stated)			UK	UK & International	Group
2020 reported					
	A	**Net written premium**	**2,034**	**2,731**	**6,223**
	B	Net earned premium	2,061	2,780	6,199
	C	**Underwriting result**	**(38)**	**42**	**502**
(C/B)-1		**COR**	**101.8%**	**98.5%**	**91.9%**
	D	**Business operating result**	**61**	**152**	**703**
	E	**Profit before tax**			**483**
APM Rec 6	**F**	**Underlying profit before tax**			**670**
APM Rec 2	**G**	**Underlying profit after tax attributable to ordinary shareholders**			**486**
APM Rec 2		**Underlying earnings per share**			**47.0p**
APM Rec 2		**Underlying return on tangible equity**			**16.7%**
	H	Weighted average shares			1,034
	J	Opening tangible ordinary shareholders' funds			2,910
UK&I exits					
	K	Exited net written premium	4	3	3
	L	Exited net earned premium	16	15	15
	M	Underwriting result	(49)	(48)	(48)
	N	Tax impact thereon[1]			5
Excluding exits					
A-K	**P**	**Net written premium**	**2,030**	**2,728**	**6,220**
B-L	**Q**	Net earned premium	2,045	2,765	6,184
C-M	**R**	**Underwriting result**	**11**	**90**	**550**
(R/Q)-1	**S**	**COR**	**99.5%**	**96.7%**	**91.1%**
D-M	**T**	**Business operating result**	**110**	**200**	**751**
E-M	**U**	**Profit before tax**			**531**
F-M	**V**	**Underlying profit before tax**			**718**
(G-M-N)/H	**W**	**Underlying earnings per share**			**51.2p**
(G-M-N)/J	**X**	**Underlying return on tangible equity**			**18.2%**

1. UK underlying tax rate of 12% applied.

Alternative performance measures reconciliations continued

£m (unless stated)			UK	UK & International	Central functions	Group
2019 reported						
	A	**Net written premium**	**2,120**	**2,881**	**37**	**6,417**
	B	Net earned premium	2,215	2,981	(9)	6,462
	C	**Underwriting result**	**(5)**	**77**	**(48)**	**346**
(C/B)-1		**COR**	**100.2%**	**97.4%**		**94.6%**
	D	**Business operating result**	**116**	**212**	**(60)**	**597**
	E	**Profit before tax**				**492**
	F	**Underlying profit before tax**				**565**
	G	**Underlying profit after tax attributable to ordinary shareholders**				**406**
		Underlying earnings per share				**39.4p**
		Underlying return on tangible equity				**14.2%**
	H	Weighted average shares				1,031
	J	Opening tangible ordinary shareholders' funds				2,867
GVC reallocation to UK&I exit portfolio[1]						
	K	GVC recoveries in relation to UK exit portfolio	8	8	(8)	–
Adjusted for GVC reallocation to UK&I exit portfolio						
C+K	L	**Underwriting result**	**3**	**85**	**(56)**	**346**
(L/B)-1	M	**COR**	**99.9%**	**97.1%**		**94.6%**
D+K	N	**Business operating result**	**124**	**220**	**(68)**	**597**
UK&I exits						
	P	Exited net written premium	10	17	–	17
	Q	Exited net earned premium	77	88	–	88
	R	Underwriting result	(47)	(59)	–	(59)
	S	Tax impact thereon[2]				6
Excluding exits						
A-P	T	**Net written premium**	**2,110**	**2,864**	**37**	**6,400**
B-Q	U	Net earned premium	2,138	2,893	(9)	6,374
L-R	V	**Underwriting result**	**50**	**144**	**(56)**	**405**
(V/U)-1	W	**COR**	**97.7%**	**95.0%**		**93.6%**
N-R	X	**Business operating result**	**171**	**279**	**(68)**	**656**
E-R	Y	**Profit before tax**				**551**
F-R	Z	**Underlying profit before tax**				**624**
(G-R-S)/H	AA	**Underlying earnings per share**				**44.5**
(G-R-S)/J	AB	**Underlying return on tangible equity**				**16.0%**

1. £8m of prior year GVC recoveries relating to UK exited business has been reallocated from Central Functions to UK Exits and therefore to total UK&I.
2. UK underlying tax rate 10% applied, reducing Group underlying tax rate from 20% to 19% due to an increase in the UK share of Group profit mix.

Shareholder **information**

Further information and help

The Company's corporate website provides a range of information about the Group's heritage, social and environmental responsibilities and investor information such as the Group's financial statements, current and historic share prices, Annual General Meeting (AGM) materials, events, governance information and answers to frequently asked questions in respect of shareholder matters, including the cash offer from Intact and Tryg. Visit the investor website at www.rsagroup.com/investors for further information.

The Company's share register is maintained by Equiniti Limited (Equiniti). Any administrative enquiries relating to shareholdings, such as dividend payment instructions or a change of address, should be notified to:

- Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA
- Telephone: 0371 384 2048
- To securely email Equiniti with an enquiry, visit www.shareview.co.uk.

When contacting Equiniti, please quote your shareholder reference number which can be found on your share certificate or dividend documents.

Telephone lines are open 8.30am to 5.30pm (UK time), Monday to Friday, excluding public holidays in England and Wales. Overseas callers should use +44(0) 121 415 7064. Shareholders with a text phone facility should use +44(0) 371 384 2255 or use the Text Relay service by dialling 18001 0121 415 7064 directly from the text phone.

Managing your shareholding

Information on how to manage your shareholding can be found at www.shareview.co.uk.

Amalgamation of accounts

Shareholders who receive duplicate sets of Company mailings owing to multiple accounts in their name may contact Equiniti to request that their accounts be amalgamated.

Electronic communications

You can elect to receive email notification of shareholder communications by registering at www.shareview.co.uk, where you can also set up a bank mandate to receive dividends directly to your bank account and submit proxy votes for shareholder meetings. Shareholders may elect to receive a printed copy of the Annual Report and Accounts at any time by contacting Equiniti.

Additionally, if you wish to register for the Company's investor news service to receive the latest news and press releases by email, visit www.rsagroup.com/investornewsalert.

Low-cost share dealing facilities

Shareholders may purchase or sell their RSA Ordinary Shares through their stockbroker, a high street bank or one of the providers detailed below.

Equiniti offers a telephone and internet dealing service. Commission is 1.5% (rate quoted as at 22 February 2021 and may be subject to change) on amounts up to £50,000 and 0.25% on the excess thereafter, with a minimum charge of £60 for telephone dealing and £45 for internet dealing. For telephone sales, call +44(0) 345 6037 037. Lines are open 8.30am to 5.30pm (UK time), Monday to Friday, excluding public holidays in England and Wales. For internet sales log on to www.shareview.co.uk/dealing. Please quote your shareholder reference number.

Dividends

Shareholders are encouraged to have their dividends paid directly into their bank account. It is a more secure and faster way to receive dividend payments, with cleared funds available to shareholders on the dividend payment date. Shareholders who have their dividends paid directly into their bank account receive annual dividend confirmations once a year, showing payments received in the respective tax year. Alternatively, individual dividend confirmations are available upon request. To take advantage of this convenient method of payment, visit www.shareview.co.uk or contact Equiniti.

Financial calendar

4 March 2021
Ex-dividend date for the first preference dividend for 2021

5 March 2021
Record date for the first preference dividend for 2021

1 April 2021
Payment date for the first preference dividend for 2021

29 June 2021*
Annual General Meeting

29 July 2021*
Announcement of the half-year results for the six months ended 30 June 2021

12 August 2021*
Ex-dividend date for the second preference dividend for 2021

13 August 2021*
Record date for the second preference dividend for 2021

1 October 2021*
Payment date for the second preference dividend for 2021

* Provisional date

Annual General Meeting

The 2021 AGM will be held in London on Tuesday 29 June 2021 at 11.00am.

A letter from the Chairman and the notice convening the AGM (Notice) will be made available to all ordinary shareholders at least 20 working days before the meeting and will be available on the Company's website at www.rsagroup.com.

Ordinary Share performance

The opening market price of an ordinary share on 2 January 2020 was 568.6 pence and the closing market price on 31 December 2020 was 677.4 pence. The highest daily closing price of an Ordinary Share during 2020 was 679.2 pence on 23 December 2020 and the lowest daily closing price was 326.9 pence on 23 March 2020.

Share register fraud: protecting your investment

UK law requires that our shareholder register is available for public inspection. We are unable to control the use of information obtained by persons inspecting the register. Details of any share dealing facilities that the Company endorses will be included in Company mailings or on our website.

Always be wary if you're contacted out of the blue (by telephone, email, post or in person) and pressured to invest quickly or promised returns that sound too good to be true. Shareholders are advised to be wary of any unsolicited advice, offers to buy shares at a discount, or offers of free reports about the Company. If you receive any unsolicited advice, make sure you get the correct name of the person and organisation and check that they are appropriately authorised by the FCA by visiting www.fca.org.uk/scamsmart. It is advisable to check the URL on websites and check the contact details of a firm in case it's a 'clone firm' pretending to be a real firm, such as your bank or a genuine investment firm.

More information on protecting your investment can be found at www.fca.org.uk/consumers. If you do receive a fraudulent approach, please advise the FCA using the share fraud reporting form at www.fca.org.uk/scams or call the FCA Consumer Helpline on 0800 111 6768.

Tips on protecting your shares

- Keep any documentation that contains your shareholder reference number in a safe place and destroy any documentation you no longer require by shredding.
- Inform Equiniti promptly when you change your address.
- Be aware of dividend payment dates and contact Equiniti if you do not receive your dividend cheque or, better still, make arrangements to have the dividend paid directly into your bank account.
- Consider holding your shares electronically in a CREST account via a nominee account or in the Corporate Sponsored Nominee.

ShareGift

Shareholders with a small number of shares, the value of which makes it uneconomic to sell them, may wish to consider donating them to charity through ShareGift, a registered charity (number 1052686). The relevant share transfer form can be obtained from Equiniti. Further details can be obtained from www.sharegift.org or by calling + 44(0) 20 7930 3737.

American Depositary Receipts

The Company operates a sponsored American Depositary Receipts (ADRs) programme which is managed by JPMorgan Chase Bank, NA. The programme allows shareholders to invest in the Company through US dollar denominated funds. One ADR represents one Ordinary Share of £1.00 each.

For other information or help, please contact:

- JPMorgan Chase Bank, NA, Shareowner Services, PO Box 64504, St. Paul, MN 55164-0504
- Telephone:
  Toll-free number: Phone: 1 800 990 1135
  Outside the U.S.: Phone: +1 651 453 2128
- Website: www.adr.com/shareholder

Registered Office

The Company is registered in England and Wales under Company No. 2339826. Its registered office address is 20 Fenchurch Street, London EC3M 3AU.

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