# 2020 PRELIMINARY RESULTS

RSA Insurance Group plc 26 February 2021

- **Group business operating result £751m[1] up 15% vs 2019**
- **Group underwriting profit £550m[1] up 36%**
- **Group combined ratio 91.1%[1]; underlying EPS 51.2p[1] per share**
- **Statutory profit before tax £483m. Underlying ROTE 18.2[1]%**

**Stephen Hester, RSA Group Chief Executive, commented:**

"We are pleased to report excellent results for RSA in 2020. Underwriting profits are sharply up to new record levels and return on tangible equity has risen above our target range.

Naturally, the impact of COVID-19 was the major feature of our year, as for society as a whole. We prioritised the safety of our employees and sustaining service to customers. The Group paid out some £4.6bn in 'normal' claims whilst also providing for over £250m in COVID-19 specific claims, together with offering a range of other customer support measures.

The Group has delivered on large parts of our "best in class" ambitions. The quality of earnings is excellent which augurs well for RSA's prospects in 2021 and beyond. I am proud of the hard work, dedication and focus of all my colleagues in what was a difficult and turbulent year.

We have built a high performing company and 2020's results showcase the value creation thereby achieved. This in turn drove the 52% premium we were able to negotiate in Q4 through an all cash bid from Intact and Tryg. The Offer is on track to complete in the coming months, ending a chapter for RSA but not the whole story..."

**Trading results**

- Underlying profit before tax £718m[1] up 15%. Statutory profit before tax £483m down 2% driven by market impacts from COVID-19, bid costs, exits and restructuring
- Group business operating result of £751m[1] up 15%: Scandinavia £337m; Canada £256m; UK & International £200m[1]. Group total business operating result of £703m (2019: £597m). In aggregate, the estimated net impact of COVID-19 from premiums, claims and investment income effects is a £42m drag on business operating result
- Group underwriting profit of £550m[1] up 36%. Group total underwriting profit £502m (2019: £346m)
- Group combined ratio of 91.1%[1]: Scandinavia 83.2%; Canada 88.3%; UK & International 96.7%[1]. Group total combined ratio 91.9%; UK & International (including exits) 98.5%:
  - Group attritional loss ratio[1] improved 4.5 points vs. 2019 of which an estimated 1.9 points are COVID-19 related
  - Group weather costs 2.3%[1] of premiums (2019: 2.5%[1])
  - Large losses 9.9%[1] of which an estimated 1.2 points reflect negative COVID-19 impacts (2019: 9.7%[1])

[1] *Excluding UK&I exit portfolios, refer to pages 33 to 43 for further information*

- Group prior year underwriting profit of £15m[1] (2019: £45m[1] profit)

- Personal Lines (56% of net written premiums) combined ratio 86%[1], Commercial Lines combined ratio 97%[1] (44% of net written premiums)

  Net written premiums ('NWP') of £6,220m[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, NWP was down 3%[2] overall vs. 2019. In total:

  - NWP down 1%[2] in Scandinavia
  - NWP up 3%[2] in Canada excluding the estimated impacts of COVID-19 or down 1%[2] overall
  - NWP down 2%[1,2] in UK & International excluding the estimated impacts of COVID-19 or down 5%[1,2] overall

- Group written controllable costs down to £1,339m (2019: £1,346m). Earned controllable cost ratio of 21.5%
- Investment income of £258m down 16%, at the lower end of our predicted range
- Other charges include £40m of mark to market losses/impairments/discount rate change relating to estimated COVID-19 market volatility and £78m for UK cost base restructuring
- Losses on UK&I exit portfolios were £48m reflecting one large claim, certain COVID-19 international construction claims and increased prior year reserves
- Statutory profit after tax £364m (2019: £383m)
- Underlying EPS 51.2p[1] is up 15%, statutory earnings per share 30.9p down 5%

### Capital & balance sheet

- 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), versus our 130-160% target range
- Tangible equity £3.27bn up 13% (31 December 2019: £2.91bn), 316p per share
- Underlying return on tangible equity of 18.2%[1], above the 13-17% target range
- IFRS pension surplus £290m (31 December 2019: £211m). Fall in bond yields increases estimated full year 2021 capital impact of bond 'pull-to-par' to c.£90m post tax

### Acquisition update

The recommended bid for RSA by Intact in consortium with Tryg was approved by RSA shareholders in January and good progress is being made in satisfying the various conditions to closing. It is presently estimated that closing is likely to occur during Q2 2021, subject to the conditions being satisfied.

### COVID-19 impacts

- While the impacts of COVID-19 are ongoing, we discuss the principal areas affected below with data for 2020:

  - Financial market movements will continue to affect balance sheet, solvency ratios, pension surplus and investment income. Data as at year end 2020 is presented above.

*[1] Excluding UK&I exit portfolios, refer to pages 33 to 43 for further information*
*[2] At constant FX*
*[3]The Solvency II capital position at 31 December 2020 is estimated*

- 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.
- On 15 January 2021, the Supreme Court handed down judgment relating to the FCA “test case” on business interruption coverage wordings in the UK. As a result of this judgment, gross loss reserving for 2020 increased but RSA does not currently expect the net loss estimates in relation to the policies before the Court to change materially from those previously reported.
- In 2020 RSA booked group wide gross claims costs (including substantial IBNR reserves) of £259m[1].
- Reinsurance recoverables arise to mitigate gross claims costs under travel insurance protection, the Group GVC and Cat programmes. Please see page 28 for further details of the GVC and Group Cat programmes.
- There is also a COVID-19 effect on premium income for 2020, which totalled c.£166m reduction. This results from a range of customer driven coverage changes, volume impacts and specific premium relief schemes across our different territories.
- RSA itself was able to adjust well to substantially all employees working from home and business as usual for customer service has largely been sustained. We have prioritised health and welfare of our staff and have not taken part in government furlough programmes.

[1] *Gross numbers are net of specific quota share and facultative reinsurance impacts*

## MANAGEMENT REPORT – KEY FINANCIAL PERFORMANCE DATA

### Management basis

| £m (unless stated) | FY 2020 | FY 2019 | *FY 2020 ex. exits* | *FY 2019 ex. exits* |
|---|---|---|---|---|
| **Profit and loss** | | | | |
| Group net written premiums | *6,223* | 6,417 | *6,220* | *6,400* |
| **Underwriting profit ◊** | ***502*** | **346** | ***550*** | ***405*** |
| Combined operating ratio ◊ | *91.9%* | 94.6% | *91.1%* | *93.6%* |
| Investment result ◊ | *213* | 263 | *213* | *263* |
| **Business operating result ◊** | ***703*** | **597** | ***751*** | ***656*** |
| Profit before tax | *483* | 492 | *531* | *551* |
| **Underlying profit before tax ◊** | ***670*** | **565** | ***718*** | ***624*** |
| Profit after tax | *364* | 383 | | |
| | | | | |
| **Metrics** | | | | |
| Earnings per share (pence) | *30.9p* | 32.6p | | |
| **Underlying earnings per share (pence) ◊** | ***47.0p*** | **39.4p** | ***51.2p*** | ***44.5p*** |
| Interim dividend per ordinary share (pence) | *8.0p* | 7.5p | | |
| Final dividend per ordinary share (pence) | See page 13 | See page 13 | | |
| Total dividend per ordinary share (pence) | See page 13 | See page 13 | | |
| Return on tangible equity (%) ◊ | *11.0%* | 11.7% | | |
| **Underlying return on tangible equity (%) ◊** | ***16.7%*** | **14.2%** | ***18.2%*** | ***16.0%*** |

| | **31 Dec 2020** | 31 Dec 2019 |
|---|---|---|
| **Balance sheet** | | |
| Net asset value (£m) | *4,267* | 3,872 |
| Tangible net asset value (£m) ◊ | *3,274* | 2,910 |
| Net asset value per share (pence) ◊ | *400p* | 363p |
| Tangible net asset value per share (pence) ◊ | *316p* | 282p |
| | | |
| **Capital (including dividend)** | | |
| Solvency II surplus (£bn) | *1.2* | 1.2 |
| Solvency II coverage ratio | *170%* | 168% |
| | | |
| **Capital (excluding dividend)** | | |
| Solvency II surplus (£bn) | *1.5* | 1.3 |
| Solvency II coverage ratio | *189%* | 178% |

## CHIEF EXECUTIVE'S STATEMENT

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 above, 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.

*[1] Excluding UK&I exit portfolios, refer to pages 33 to 43 for further information*

*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.

*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**

# MANAGEMENT REPORT

## SEGMENTAL INCOME STATEMENT

## Management basis – 12 months ended 31 December 2020

| | Scandi-navia[1] £m | Canada £m | *UK&I ex. exits[2] £m* | *UK&I exit portfolios[2] £m* | UK&I total £m | Central functions £m | ***Group FY20 £m*** | ***Group FY19 £m*** | **Group ex exits[2] FY20 £m** | **Group ex exits[2] FY19 £m** |
|---|---|---|---|---|---|---|---|---|---|---|
| **Net written premiums** | **1,764** | **1,692** | ***2,728*** | ***3*** | **2,731** | **36** | **6,223** | **6,417** | **6,220** | ***6,400*** |
| Net earned premiums | 1,728 | 1,702 | *2,765* | *15* | 2,780 | (11) | 6,199 | 6,462 | 6,184 | *6,374* |
| Net incurred claims | (1,126) | (1,019) | *(1,678)* | *(54)* | (1,732) | (13) | (3,890) | (4,332) | (3,836) | *(4,224)* |
| Commissions | (65) | (204) | *(533)* | *(6)* | (539) | - | (808) | (831) | (802) | *(807)* |
| Operating expenses | (246) | (280) | *(464)* | *(3)* | (467) | (6) | (999) | (953) | (996) | *(938)* |
| **Underwriting result ♢** | **291** | **199** | ***90*** | ***(48)*** | **42** | **(30)** | **502** | **346** | **550** | ***405*** |
| Investment income | 71 | 61 | *126* | - | 126 | - | 258 | *306* | 258 | *306* |
| Investment expenses | (3) | (2) | *(9)* | - | (9) | - | (14) | *(12)* | (14) | *(12)* |
| Unwind of discount | (22) | (2) | *(7)* | - | (7) | - | (31) | *(31)* | (31) | *(31)* |
| **Investment result ♢** | **46** | **57** | ***110*** | **-** | **110** | **-** | **213** | ***263*** | **213** | ***263*** |
| Central expenses | - | - | - | - | - | (12) | (12) | (12) | (12) | *(12)* |
| **Business operating result ♢** | **337** | **256** | ***200*** | ***(48)*** | **152** | **(42)** | **703** | **597** | **751** | ***656*** |
| 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[3] | | | | | | | (25) | (23) | | |
| **Net attributable profit ♢** | | | | | | | **320** | **336** | | |
| | | | | | | | | | | |
| Loss ratio (%) | 65.2 | 59.8 | *60.7* | | 62.3 | | *62.8* | 67.0 | 62.0 | *66.3* |
| *Weather loss ratio* | *0.2* | *3.7* | *3.3* | | 3.4 | | *2.3* | *2.6* | *2.3* | *2.5* |
| *Large loss ratio* | *7.2* | *6.9* | *12.9* | | 13.3 | | *10.1* | *10.0* | *9.9* | *9.7* |
| *Current year attritional loss ratio ♢* | *60.4* | *47.5* | *45.4* | | 45.7 | | *50.6* | *55.0* | *50.4* | *54.9* |
| *Prior year effect on loss ratio* | *(2.6)* | *1.7* | *(0.9)* | | (0.1) | | *(0.2)* | *(0.6)* | *(0.6)* | *(0.8)* |
| Commission ratio (%) | 3.7 | 12.0 | *19.2* | | 19.4 | | *13.0* | 12.9 | 13.0 | *12.6* |
| Expense ratio (%) | 14.3 | 16.5 | *16.8* | | 16.8 | | *16.1* | 14.7 | 16.1 | *14.7* |
| **Combined ratio (%)♢** | **83.2** | **88.3** | ***96.7*** | | **98.5** | | ***91.9*** | **94.6** | **91.1** | ***93.6*** |
| | | | | | | | | | | |
| Controllable expense ratio (%)[4] ♢ | 21.0 | 18.8 | *23.1* | | 23.2 | | *21.5* | 20.9 | *21.5* | *20.9* |

**Notes:**

[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.*
[2] *Exit portfolios in UK & International which was substantially run off in 2020, with residual premium still to earn out in 2021*
[3] *Preference dividends of £9m and coupons of £16m paid on Restricted Tier 1 securities*
[4] *On an earned basis*

**Premiums**

Net written premiums ('NWP') of £6,220m[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, NWP was down 3%[2] overall vs. 2019. Outside of COVID-19 impacts, areas of profitable growth were balanced by planned underwriting effects in portfolios being remediated, with the process largely complete.

Group retention remained stable at 80% in the period (2019: 80%).

Regional trends for 2020 include:

- Scandinavian premiums[3] 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% excluding the estimated impacts of COVID-19 (down 9% overall). Household premiums were down slightly reflecting a lower renewal base. Pleasingly, retention was up nearly 5 points despite pushing good rate and Pet premiums decreased as we continue to prioritise margin improvements. UK Commercial Lines premiums grew by 4% excluding the estimated impacts of COVID-19 (up 1% 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. 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.

More detail is provided in the regional reviews on pages 16 to 22.

[1] *Excluding UK&I exit portfolios, refer to pages 33 to 43 for further information*
[2] *At constant FX*
[3] *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.*

## Underwriting result[1]

Total Group underwriting result:

| £m | Current year UW ◊ FY 2020 | Current year UW ◊ FY 2019 | Prior year UW ◊ FY 2020 | Prior year UW ◊ FY 2019 | Total UW result ◊ FY 2020 | Total UW result ◊ FY 2019 |
|---|---|---|---|---|---|---|
| Scandinavia | 264 | 202 | 27 | 21 | 291 | 223 |
| Canada | 227 | 80 | (28) | 14 | 199 | 94 |
| UK & International | 38 | 85 | 4 | - | 42 | 85 |
| *UK & International ex. exits* | *64* | *131* | *26* | *13* | *90* | *144* |
| Central functions | (20) | (53) | (10) | (3) | (30) | (56) |
| **Total Group** | **509** | **314** | **(7)** | **32** | **502** | **346** |
| ***Total Group ex. exits*** | ***535*** | ***360*** | ***15*** | ***45*** | ***550*** | ***405*** |

- The impacts of COVID-19 provided an estimated £25m underwriting loss overall. COVID-19 related frequency benefits were offset by lower premiums, direct COVID-19 related claims, claims provisions and projected claims inflation impacting both the prior year and current year.
- The Group attritional loss ratio of 50.4% 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 a 1.8 point benefit). In Canada, the attritional loss ratio improved by 8.5 points (of which COVID-19 provided a 3.9 point benefit). The UK & International attritional loss ratio improved by 3.3 points (of which COVID-19 provided a 1.4 point benefit).
- Weather losses amounted to £140m or 2.3% of net earned premiums (2019: 2.5%; five year average: 2.8%[2]) a little better than prior year. 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%[2]). 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% excluding COVID-19 and 2.5 points worse than 2019 altogether.
- Reinsurance: A net recovery was made on the Group Volatility Cover ('GVC'). There was also a modest recovery on the Scandinavian regional aggregate cover. Please see page 28 for further details of the relevant covers for 2021.

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

Our assessment of the margin in reserves for the Group (the difference between our actuarial indication and the booked reserves in the financial statements) increased during the year to c.5.5% of best estimate claims reserves, above our 5% target level.

*[1] Excluding UK&I exit portfolios, refer to pages 33 to 43 for further information*
*[2] 2016 to 2020 for Total Group.*

*Underwriting operating expenses*

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 (as guided) but was impacted by lower premiums driven by COVID-19.

*Commissions*

The Group commission ratio of 13.0% was up slightly versus prior year (2019: 12.6%)

**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%). Approximately £17m of the reduction in investment income was a result of COVID-19 market impacts.

Based on year end 2020 forward bond yields and FX rates, it is estimated that investment income will be c.£230-245m for 2021. The discount unwind is expected to be c.£30m per annum and investment expenses c.£15m per annum.

**Controllable costs**

Group written controllable costs were £1,339m (2019: £1,346m). This comprised 2% cost reductions, offset by 1% inflation. At CFX 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% (excluding disposals) vs. a 2013 baseline.

The earned controllable expense ratio of 21.5% (ex. exits) was up versus 2019 (20.9%) due to a lower premium base driven by both portfolio actions and the estimated premium impacts of 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.

| Earned controllable expense ratio: ◊ | Scandinavia % | Canada % | *UK&I ex. exits %* | UK&I total % | ***Group ex. exits %*** | **Total Group %** |
|---|---|---|---|---|---|---|
| **12 months ended 31 Dec 2020** | **21.0** | **18.8** | ***23.1*** | **23.2** | ***21.5*** | **21.5** |
| 12 months ended 31 Dec 2019 | 21.7 | 16.9 | *22.5* | 22.5 | 20.9 | 20.9 |

*[1] At constant FX and ex. disposals (where relevant)*
*[2] Full time equivalent employees*

**Other charges**

Interest costs:

- Interest costs were £33m (£49m including the Tier 1 issuance), up from £32m in 2019.
- Coupon costs of £16m (2019: £14m) for the 2017 Tier 1 issuance are presented at the bottom of the management P&L as 'other equity costs'. Under IFRS, these are recognised in the statement of changes in equity.

Other charges:

| £m | FY 2020 | FY 2019 |
|---|---|---|
| Net gains/ losses/ FX | (77) | (23) |
| Amortisation | (11) | (12) |
| Pension net interest cost | 1 | 4 |
| Restructuring costs | (78) | (27) |
| Changes in economic assumptions | (8) | (15) |
| Other | (14) | - |
| **Total ◊** | **(187)** | **(73)** |

- Net losses of £77m were incurred, of which an estimated £32m related to COVID-19 market volatility. There was also a £14m goodwill write-down 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 which commenced in 2020.
- 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 on overseas profits in Canada and Scandinavia. The Group's ETR of 25% is higher than the UK statutory rate of 19% due to higher tax rates in some of the Group's core overseas jurisdictions, withholding taxes, disallowable costs, and a 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% (2019: 19%). The slightly increased underlying tax rate, compared to 2019, is mainly due to a greater proportion of Canada profits which are taxed at a higher rate.

The carrying value of the Group's deferred tax assets at 31 December 2020 was £199m (31 December 2019: £209m), of which £181m (31 December 2019: £180m) are 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 (31 December 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 significant increase in the year is mainly due to the change in future UK tax rate from 17% to 19% enacted early in 2020, and with effect from 1 April 2020.

The carrying value of the Group's deferred tax liabilities at 31 December 2020 was £105m (31 December 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.

**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).

## BALANCE SHEET

### Movement in Net Assets

| | Share-holders' funds[1] £m | Non-controlling interests £m | Tier 1 notes £m | Total equity £m | Loan capital £m | Equity & loan capital £m | TNAV ◊ £m |
|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2020** | **3,872** | **173** | **297** | **4,342** | **402** | **4,744** | **2,910** |
| Profit after tax | 345 | 19 | - | 364 | - | 364 | 446 |
| Foreign exchange gains net of tax | 61 | (6) | - | 55 | - | 55 | 50 |
| Fair value gains net of tax | 97 | 1 | - | 98 | - | 98 | 97 |
| Pension fund losses net of tax | (25) | - | - | (25) | - | (25) | (25) |
| Amortisation of loan capital | - | - | - | - | 1 | 1 | - |
| Share based payments & share issue | 25 | - | - | 25 | - | 25 | 25 |
| Prior year final dividends | - | (13) | - | (13) | - | (13) | - |
| Interim dividend | (83) | - | - | (83) | - | (83) | (83) |
| Other equity costs[2] | (25) | - | - | (25) | - | (25) | (25) |
| Goodwill and net intangible additions | - | - | - | - | - | - | (121) |
| Changes in shareholders' interest in subsidiaries | - | (8) | - | (8) | - | (8) | - |
| **Balance at 31 December 2020** | **4,267** | **166** | **297** | **4,730** | **403** | **5,133** | **3,274** |
| | | | | | | | |
| **Per share (pence) ◊** | | | | | | | |
| At 1 January 2020 | 363 | | | | | | 282 |
| **At 31 December 2020** | **400** | | | | | | **316** |

Tangible net assets increased by 13% to £3.27bn at 31 December 2020.

The increase was driven by profit after tax of £446m[3] 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).

The pension schemes generated a loss of £25m in net asset terms driven mainly by updates to financial assumptions, as well as increases in tax deductions due to a larger surplus at year end. The IAS 19 surplus at 31 December 2020 was £290m, please see page 27 for more details.

TNAV per share increased by 12% to 316p.

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*[1] Ordinary shareholders' funds including preference share capital of £125m*
*[2] Includes preference dividends of £9m and coupons of £16m paid on 2017 issued restricted tier 1 securities*
*[3] Adjusted for items relating to goodwill and intangible assets*

## CAPITAL POSITION

| Solvency II position[1]: | Requirement (SCR) £bn | Eligible Own Funds £bn | Surplus £bn | Coverage % |
|---|---|---|---|---|
| **31 December 2020** | **1.7** | **3.2** | **1.5** | **189%** |
| 31 December 2019 | 1.7 | 3.0 | 1.3 | 178% |

The Solvency II coverage ratio[1] increased to 189% during the period:

| | % |
|---|---|
| **At 1 January 2020** | **178** |
| Underlying capital generation | 32 |
| Net capital investment | (2) |
| Impact of pension contributions (paid annually in Q1) | (4) |
| Pull-to-par on unrealised bond gains | (4) |
| Exit losses | (3) |
| Reorganisation costs | 0[2] |
| Dividends | (5) |
| Market movements (including IAS 19) and other | (3) |
| **At 31 December 2020** | **189** |

Please refer to appendix (page 26) for further Solvency II details (including sensitivities).

Note: The increase in the IAS19 pension surplus over the year has resulted in an increase to the Solvency II unrecognised pension buffer. The buffer has increased by 7 points to 10 points.

*[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] Impact of restructuring costs net nil as already recognised in FY19 SCR*

## REGIONAL REVIEW – SCANDINAVIA[1]

### Management basis

| | Net written premiums FY 2020 £m | FY 2019 £m | Change CFX % | Underwriting results FY 2020 £m | FY 2019 £m | Change CFX % |
|---|---|---|---|---|---|---|
| **Split by country** | | | | | | |
| Sweden | 1,046 | 1,033 | (1) | 237 | 257 | (10) |
| Denmark | 599 | 606 | (3) | 62 | (18) | 434 |
| Norway | 119 | 125 | 2 | (8) | (16) | 42 |
| **Total Scandinavia** | **1,764** | **1,764** | **(1)** | **291** | **223** | 27 |
| | | | | | | |
| **Split by class** | | | | | | |
| Household | 314 | 338 | (8) | | | |
| Personal Motor | 362 | 360 | - | | | |
| Personal Accident & Other | 361 | 345 | 3 | | | |
| **Total Scandinavia Personal** | **1,037** | **1,043** | **(2)** | **221** | **231** | (6) |
| *Policy count change* | | | - | | | |
| | | | | | | |
| Property | 330 | 317 | 3 | | | |
| Liability | 136 | 138 | (2) | | | |
| Commercial Motor | 196 | 204 | (5) | | | |
| Other | 65 | 62 | 4 | | | |
| **Total Scandinavia Commercial** | **727** | **721** | **-** | **70** | **(8)** | 1,110 |
| *Volume change* | | | *(6)* | | | |
| | | | | | | |
| **Total Scandinavia** | **1,764** | **1,764** | **(1)** | **291** | **223** | 27 |
| | | | | | | |
| Investment result | | | | 46 | 63 | (28) |
| **Scandinavia business operating result** | | | | **337** | **286** | 15 |

| Operating ratios (%) | Claims FY 2020 | FY 2019 | Commission FY 2020 | FY 2019 | Expenses FY 2020 | FY 2019 | Combined FY 2020 | FY 2019 |
|---|---|---|---|---|---|---|---|---|
| **Scandinavia Personal** | **62.2** | 62.9 | **3.5** | 3.1 | **12.8** | 11.8 | **78.5** | 77.8 |
| **Scandinavia Commercial** | **69.5** | 79.8 | **4.1** | 4.3 | **16.5** | 17.0 | **90.1** | 101.1 |
| **Total Scandinavia** | **65.2** | 69.8 | **3.7** | 3.7 | **14.3** | 13.9 | **83.2** | 87.4 |
| | | | | | | | | |
| *Earned controllable expense ratio* | **21.0** | 21.7 | | | | | | |

| | FY 2020 | FY 2019 | *5 year average* |
|---|---|---|---|
| *Claims ratio:* | | | |
| *Weather loss ratio* | *0.2* | *0.4* | *0.3* |
| *Large loss ratio* | *7.2* | *7.8* | *6.9* |
| *Current year attritional loss ratio* | *60.4* | *63.4* | |
| *Prior year effect on loss ratio* | *(2.6)* | *(1.8)* | |

[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.*

## SCANDINAVIA

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*

## REGIONAL REVIEW – CANADA

### Management basis

| | Net written premiums FY 2020 £m | Net written premiums FY 2019 £m | Change CFX % | Underwriting result FY 2020 £m | Underwriting result FY 2019 £m | Change CFX % |
|---|---|---|---|---|---|---|
| Household | 497 | 537 | (6) | | | |
| Personal Motor | 718 | 708 | 3 | | | |
| **Total Canada Personal** | **1,215** | **1,245** | (1) | **187** | **106** | 78 |
| *Policy count change* | | | (5) | | | |
| Property | 219 | 212 | 5 | | | |
| Liability | 95 | 100 | (3) | | | |
| Commercial Motor | 104 | 123 | (14) | | | |
| Marine & Other | 59 | 55 | 8 | | | |
| **Total Canada Commercial** | **477** | **490** | (1) | **12** | **(12)** | 211 |
| *Volume change* | | | (8) | | | |
| **Total Canada** | **1,692** | **1,735** | (1) | **199** | **94** | 114 |
| Investment result | | | | 57 | 65 | (11) |
| **Canada business operating result** | | | | **256** | **159** | 64 |

| **Operating ratios (%)** | **Claims FY 2020** | Claims FY 2019 | **Commission FY 2020** | Commission FY 2019 | **Expenses FY 2020** | Expenses FY 2019 | **Combined FY 2020** | Combined FY 2019 |
|---|---|---|---|---|---|---|---|---|
| **Canada Personal** | **58.6** | 67.5 | **9.5** | 9.9 | **16.8** | 13.9 | **84.9** | 91.3 |
| **Canada Commercial** | **63.1** | 69.9 | **18.5** | 17.6 | **15.7** | 14.8 | **97.3** | 102.3 |
| **Total Canada** | **59.8** | 68.2 | **12.0** | 12.1 | **16.5** | 14.2 | **88.3** | 94.5 |
| *Earned controllable expense ratio* | 18.8 | *16.9* | | | | | | |

| | FY 2020 | FY 2019 | *5 year average* |
|---|---|---|---|
| *Claims ratio:* | | | |
| *Weather loss ratio* | *3.7* | *5.0* | *5.0* |
| *Large loss ratio* | *6.9* | *8.0* | *7.7* |
| *Current year attritional loss ratio* | *47.5* | *56.0* | |
| *Prior year effect on loss ratio* | *1.7* | *(0.8)* | |

**CANADA**

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*

## REGIONAL REVIEW – UK & INTERNATIONAL

| Management basis | Net written premiums | | | | Underwriting result | | | |
|---|---|---|---|---|---|---|---|---|
| | FY 2020 Ex. exits £m | FY 2020 Total £m | FY 2019 Ex. exits £m | FY 2019 Total £m | FY 2020 Ex. exits £m | FY 2020 Total £m | FY 2019 Ex. exits £m | FY 2019 Total £m |
| Household | 575 | 575 | 587 | 587 | | | | |
| Personal Motor | 141 | 141 | 207 | 207 | | | | |
| Pet | 228 | 228 | 244 | 244 | | | | |
| **Total UK Personal** | **944** | **944** | **1,038** | **1,038** | **39** | **35** | **18** | **2** |
| *Policy count change ex. exits* | (8)% | | | | | | | |
| Property | 505 | 503 | 466 | 479 | | | | |
| Liability | 261 | 266 | 252 | 257 | | | | |
| Commercial Motor | 188 | 188 | 201 | 200 | | | | |
| Marine & Other | 132 | 133 | 153 | 146 | | | | |
| **Total UK Commercial** | **1,086** | **1,090** | **1,072** | **1,082** | **(28)** | **(73)** | **32** | **1** |
| *Volume change ex. exits* | (4)% | | | | | | | |
| **Total UK** | **2,030** | **2,034** | **2,110** | **2,120** | **11** | **(38)** | **50** | **3** |
| **Total UK & International** | **2,728** | **2,731** | **2,864** | **2,881** | **90** | **42** | **144** | **85** |
| Investment result | | | | | 110 | 110 | 135 | 135 |
| **UK & International operating result** | | | | | **200** | **152** | **279** | **220** |

| Operating ratios (%) | Claims | | Commission | | Expenses | | Combined | |
|---|---|---|---|---|---|---|---|---|
| | **FY 2020** | FY 2019 | **FY 2020** | FY 2019 | **FY 2020** | FY 2019 | **FY 2020** | FY 2019 |
| **Total UK Personal** | 55.7 | 60.8 | 20.9 | 20.6 | 19.9 | 18.4 | 96.5 | 99.8 |
| *UK Personal ex. exits* | 55.3 | 59.5 | 20.9 | 20.5 | 19.9 | 18.4 | 96.1 | 98.4 |
| **Total UK Commercial** | 74.2 | 68.6 | 20.7 | 19.9 | 11.9 | 11.4 | 106.8 | 99.9 |
| *UK Commercial ex. exits* | 70.3 | 66.3 | 20.5 | 19.3 | 11.9 | 11.3 | 102.7 | 96.9 |
| **Total UK** | 65.3 | 64.7 | 20.8 | 20.3 | 15.7 | 14.9 | 101.8 | 99.9 |
| *UK ex. exits* | 63.0 | 62.8 | 20.8 | 19.9 | 15.7 | 14.9 | 99.5 | 97.7 |
| **Total UK & International** | 62.3 | 63.1 | 19.4 | 18.7 | 16.8 | 15.3 | 98.5 | 97.1 |
| *UK & International ex. exits* | 60.7 | 61.3 | 19.2 | 18.4 | 16.8 | 15.3 | 96.7 | 95.0 |
| *Earned controllable exp ratio*[1] | 23.1 | 22.5 | | | | | | |

| | FY 2020[1] | FY 2019[1] | 5 year average | 5 year average adj[2] |
|---|---|---|---|---|
| *Claims ratio:* | | | | |
| *Weather loss ratio* | 3.3 | 2.3 | 3.8 | c.3.0 |
| *Large loss ratio* | 12.9 | 10.4 | 13.3 | c.11.0 |
| *Current year attritional loss ratio* | 45.4 | 48.7 | | |
| *Prior year effect on loss ratio* | (0.9) | (0.1) | | |

[1] *Excluding UK&I exit portfolios, refer to pages 33 to 43 for further information*
[2] *Adjusted for changes in UK&I business mix resulting from exits.*

## UK & INTERNATIONAL

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 net 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 a negative COVID-19 impact 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 helped 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 the associated 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.

*[1] Excluding UK&I exit portfolios, refer to pages 33 to 43 for further information*
*[2] At constant FX*

In the Middle East, premiums were down 11%[1] excluding COVID-19 impacts (down 18%[1] 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.

[1] *At constant FX*

## INVESTMENT PERFORMANCE

### Management basis

| Investment result | FY 2020 £m | FY 2019 £m | Change % |
|---|---|---|---|
| Bonds | 196 | 223 | (12) |
| Equities | 28 | 35 | (20) |
| Cash and cash equivalents | 3 | 9 | (67) |
| Property | 17 | 18 | (6) |
| Other | 14 | 21 | (33) |
| **Investment income** | **258** | 306 | **(16)** |
| Investment expenses | (14) | (12) | (17) |
| Unwind of discount | (31) | (31) | - |
| **Investment result** | **213** | 263 | **(19)** |

| Balance sheet unrealised gains (pre-tax) | 31 Dec 2020 (£m) | 31 Dec 2019 (£m) | Change % |
|---|---|---|---|
| Bonds | 534 | 370 | 44 |
| Equities | (43) | 1 | (4,400) |
| **Total** | **491** | **371** | **32** |

| Investment portfolio | Value 31 Dec 2019 £m | Foreign exchange | Mark to market | Other movements | Transfer from assets held for sale | Value 31 Dec 2020 |
|---|---|---|---|---|---|---|
| Government bonds | 3,441 | 56 | 48 | (547) | - | 2,998 |
| Non-Government bonds | 6,970 | 250 | 40 | 466 | - | 7,726 |
| Cash | 909 | 6 | - | 179 | - | 1,094 |
| Equities | 218 | 32 | (63) | 3 | - | 190 |
| Property | 300 | - | (8) | (7) | - | 285 |
| Preference shares & CIVs | 455 | (2) | (3) | 33 | - | 483 |
| Other | 338 | 3 | 1 | 87 | - | 429 |
| **Total** | **12,631** | **345** | **15** | **214** | **-** | **13,205** |
| **Split by currency:** | | | | | | |
| Sterling | 3,567 | | | | | 3,536 |
| Danish Krone | 1,030 | | | | | 1,093 |
| Swedish Krona | 2,367 | | | | | 2,470 |
| Canadian Dollar | 2,901 | | | | | 3,053 |
| Euro | 1,474 | | | | | 1,667 |
| Other | 1,292 | | | | | 1,386 |
| **Total** | **12,631** | | | | | **13,205** |

| Credit quality – bond portfolio | Non-government | | Government | |
|---|---|---|---|---|
| | **31 Dec 2020 %** | 31 Dec 2019 % | **31 Dec 2020 %** | 31 Dec 2019 % |
| AAA | 39 | 42 | 66 | 62 |
| AA | 14 | 13 | 32 | 33 |
| A | 29 | 29 | 2 | 5 |
| BBB | 16 | 13 | - | - |
| < BBB | 2 | 3 | - | - |
| Non-rated | - | - | - | - |
| **Total** | **100** | **100** | **100** | **100** |

## INVESTMENT PERFORMANCE

Investment income of £258m (2019: £306m) was offset by investment expenses of £14m (2019: £12m) and the liability discount unwind of £31m (2019: £31m). Investment income was down on the prior year primarily reflecting the impact of reinvestment at lower yields but also negatively impacted by lower cash rates and reduced dividend income from the REIT[1] portfolio.

The average book yield for 2020 on the total portfolio was 2.0% (2019: 2.4%), with an average yield on the bond portfolios of 1.9% (2019: 2.1%). Reinvestment rates in the Group's major bond portfolios were approximately 0.6% (2019: 1.2%).

At 31 December 2020, the average duration of the Group's bond portfolios of 4.1[2] years was slightly higher than at the prior year-end (31 December 2019: 3.9 years).

The investment portfolio increased by 4.5% during the period to £13.2bn.

At 31 December 2020, high quality widely diversified fixed income securities represented 81% of the portfolio (31 December 2019: 82%). Equities (largely REITs[1]) represented 1% (31 December 2019: 2%) and cash was 8% of the total portfolio (31 December 2019: 7%).

The quality of the bond portfolio remains very high with 99% investment grade and 65% rated AA or above. The bond portfolio remains well diversified by sector and geography.

Based on year end 2020 forward bond yields and foreign exchange rates, our investment income guidance is c.£230-245m for 2021. The discount unwind is expected to be in the region of c.£30m per annum and investment expenses are expected to be c.£15m per annum.

*Unrealised bond gains and pull-to-par*

At 31 December 2020, balance sheet unrealised gains of £491m (pre-tax) had increased by £120m from 31 December 2019 principally driven by positive mark-to-market on bond holdings due to declining yields, partially offset by negative movements in our REIT[1] holdings.

If yield curves were to stay as they were at year end 2020, it is estimated that the bond gains would take around 6 to 7 years to fully unwind, with around 60% within the next 3 years (AFS unwind is estimated to be c.£105m post tax for 2021). The capital impact of this amount is c.£90m with the balance being projected yield change.

[1] *Real Estate Investment Trusts*
[2] *Includes swap overlay*

# APPENDIX I

## Further information

## CAPITAL

*Solvency II sensitivities*

| **Coverage ratio at 31 December 2020** | **189%** | |
|---|---|---|
| Sensitivities (change in coverage ratio)[1]: | Including pensions[2] | 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% |

The above sensitivities have been considered in isolation. The impact of a combination of sensitivities may be different to the individual outcomes stated above. Where an IFRS valuation of a pension scheme surplus is restricted under Solvency II, downside pension sensitivities may be dampened relative to those shown. In particular, given the level of pension surplus at YE 20, we would expect Group capital sensitivities to be more in line with the ex-pensions view above for more modest levels of market movements.

In Q1 2020, RSA were granted approval to apply the volatility adjustment, which reduces our exposure to spread movements and is reflected in the sensitivities above.

*Reconciliation of IFRS total capital to Eligible Own Funds*

| | **31 Dec 2020 £bn** |
|---|---|
| Shareholders' funds (including preference shares) | 4.5 |
| Loan capital | 0.4 |
| Non-controlling interests | 0.2 |
| **Total IFRS capital** | **5.1** |
| | |
| Less: Goodwill & intangibles | (0.9) |
| Adjust technical provisions to Solvency II basis | (0.5) |
| **Basic Own Funds** | **3.7** |
| Tiering & availability restrictions | (0.5) |
| **Eligible Own Funds** | **3.2** |
| Dividends accrued | (0.3) |
| **Eligible Own Funds (proforma)** | **2.9** |

1 *Sensitivities have been calibrated to a FY20 coverage ratio that includes 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 sensitivity assumes a non-parallel shift in the yield curve to reflect that the long end of the yield curve is typically more stable than the short end*

4 *The asymmetry in credit spread and interest rate 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.*

**PENSIONS**

The table below provides a reconciliation of the movement in the Group's pension fund position under IAS 19 (net of tax) from 1 January 2020 to 31 December 2020:

| | UK £m | non-UK £m | Group £m |
|---|---|---|---|
| **Net pension fund surplus/ (deficit) at 1 January 2020** | **255** | **(44)** | **211** |
| Actuarial gains[1] | 21 | 9 | 30 |
| Deficit funding | 75 | 1 | 76 |
| Tax movements | (38) | (2) | (40) |
| Other movements[2] | 14 | (1) | 13 |
| **Net pension fund surplus/ (deficit) at 31 December 2020** | **327** | **(37)** | **290** |

At an aggregate level, the pension fund surplus under IAS 19 improved 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.

1 *Actuarial gains/ (losses) are gross of tax and include pension investment expenses, variance against expected returns, change in actuarial assumptions and experience losses*

2 *Other movements are gross of tax and include regular contributions, service/ administration costs, expected returns, interest costs and settlement gains/ (losses)*

## REINSURANCE

On 1 January 2021, RSA renewed the Group Volatility Cover (GVC) on a one year basis. We chose to place 75% of the GVC in order to balance the cost versus benefit of this protection.

The key terms of the renewed GVC are as follows:

- Cover protects catastrophe event and individual large losses from our Property and Construction & Engineering portfolios
- Qualifying GVC losses are accumulated across our financial year
- Cover attaches where the total of our qualifying losses is greater than £160m.
- Qualifying losses are calculated net of our main catastrophe and large loss reinsurance covers
- Catastrophe event losses qualify in full when they exceed £10m
- Individual large losses qualify in excess of a £5m deductible
- Limit of cover is £125m

Counterparties are high credit quality reinsurers (42.5% AA- or better; 32.5% A+, A or A-)

Alongside the GVC, we continued to purchase additional aggregate cover for large losses below C$10m in Canada. We chose not to renew the large loss aggregate covers in the UK and Scandinavia.

Our main Catastrophe retentions remain at £75m for the UK and Europe combined, £50m for Europe excluding the UK and $75m for Canada.

We chose to increase our UK and Ireland Motor retentions for 2021 to just below £3m / €3m respectively. This is an increase from the 2020 level of £1m / €1m.

# MANAGEMENT REPORT

## SEGMENTAL INCOME STATEMENT

## Management basis – 12 months ended 31 December 2019

| | Scandi -navia £m | Canada £m | *UK&I ex. exits £m* | *UK&I exit portfolios[1,2] £m* | UK&I total[2] £m | Central functions[2] £m | ***Group ex. exits £m*** | **Group FY19 £m** |
|---|---|---|---|---|---|---|---|---|
| **Net written premiums** | **1,764** | **1,735** | ***2,864*** | ***17*** | **2,881** | **37** | ***6,400*** | **6,417** |
| Net earned premiums | 1,767 | 1,723 | *2,893* | *88* | 2,981 | (9) | *6,374* | 6,462 |
| Net incurred claims | (1,233) | (1,176) | *(1,773)* | *(108)* | (1,881) | (42) | *(4,224)* | (4,332) |
| Commissions | (65) | (209) | *(534)* | *(24)* | (558) | 1 | *(807)* | (831) |
| Operating expenses | (246) | (244) | *(442)* | *(15)* | (457) | (6) | *(938)* | (953) |
| **Underwriting result ♢** | **223** | **94** | ***144*** | ***(59)*** | **85** | **(56)** | ***405*** | **346** |
| Investment income | 87 | 69 | *150* | - | 150 | - | *306* | *306* |
| Investment expenses | (2) | (2) | *(8)* | - | (8) | - | *(12)* | *(12)* |
| Unwind of discount | (22) | (2) | *(7)* | - | (7) | - | *(31)* | *(31)* |
| **Investment result ♢** | **63** | **65** | ***135*** | **-** | **135** | **-** | ***263*** | ***263*** |
| Central expenses | - | - | - | - | - | (12) | *(12)* | (12) |
| **Business operating result ♢** | **286** | **159** | ***279*** | ***(59)*** | **220** | **(68)** | ***656*** | **597** |
| Interest | | | | | | | | (32) |
| Other charges | | | | | | | | (73) |
| **Profit before tax** | | | | | | | | **492** |
| Tax | | | | | | | | (109) |
| **Profit after tax** | | | | | | | | **383** |
| Non-controlling interest | | | | | | | | (24) |
| Other equity costs[3] | | | | | | | | (23) |
| **Net attributable profit ♢** | | | | | | | | **336** |
| | | | | | | | | |
| Loss ratio (%) | 69.8 | 68.2 | *61.3* | | 63.1 | | *66.3* | 67.0 |
| *Weather loss ratio* | *0.4* | *5.0* | *2.3* | | 2.5 | | *2.5* | *2.6* |
| *Large loss ratio* | *7.8* | *8.0* | *10.4* | | 11.2 | | *9.7* | *10.0* |
| *Current year attritional loss ratio ♢* | *63.4* | *56.0* | *48.7* | | 49.1 | | *54.9* | *55.0* |
| *Prior year effect on loss ratio* | *(1.8)* | *(0.8)* | *(0.1)* | | *0.3* | | *(0.8)* | *(0.6)* |
| Commission ratio (%) | 3.7 | 12.1 | *18.4* | | 18.7 | | *12.6* | 12.9 |
| Expense ratio (%) | 13.9 | 14.2 | *15.3* | | 15.3 | | *14.7* | 14.7 |
| **Combined ratio (%)♢** | **87.4** | **94.5** | ***95.0*** | | **97.1** | | ***93.6*** | **94.6** |
| | | | | | | | | |
| Controllable expense ratio (%)[4] ♢ | 21.7 | 16.9 | *22.5* | | 22.5 | | *20.9* | 20.9 |

**Notes:**

*[1] Exit portfolios in UK & International were substantially run-off over the course of 2019, with residual premium left in 2020 and 2021*
*[2] £8m of prior year GVC recoveries relating to UK&I exited business has been reallocated from Central Functions to UK&I Exits and therefore to total UK&I*
*[3] Preference dividends of £9m and coupons of £14m paid on Restricted Tier 1 securities*
*[4] On an earned basis*

## COMBINED RATIO DETAIL

### Group

| £m unless stated | | Current year | | Prior year | | FY 2020 total | FY 2020 ex. exits | Current year | Prior year | FY 2019 total | FY 2019 ex exits |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Net written premiums** | *1* | **6,226** | *7* | **(3)** | *13* | **6,223** | **6,220** | **6,390** | **27** | **6,417** | ***6,400*** |
| Net earned premiums | *2* | 6,210 | *8* | (11) | *14* | 6,199 | 6,184 | 6,442 | 20 | 6,462 | *6,374* |
| Net incurred claims | *3* | (3,911) | *9* | 21 | *15* | (3,890) | (3,836) | (4,352) | 20 | (4,332) | *(4,224)* |
| Commissions | *4* | (803) | *10* | (5) | *16* | (808) | (802) | (830) | (1) | (831) | *(807)* |
| Operating expenses | *5* | (987) | *11* | (12) | *17* | (999) | (996) | (946) | (7) | (953) | *(938)* |
| **Underwriting result ◊** | *6* | **509** | *12* | **(7)** | *18* | **502** | **550** | **314** | **32** | **346** | ***405*** |
| | | | | | | | | | | | |
| CY attritional claims | *19* | (3,138) | | | | | (3,123) | (3,540) | | | |
| Weather claims | *20* | (144) | | | | | (140) | (167) | | | |
| Large losses | *21* | (629) | | | | | (615) | (645) | | | |
| CY net incurred claims | *22* | (3,911) | | | | | (3,878) | (4,352) | | | |
| | | | | | | | | | | | |
| Loss ratio (%) | | | | *=15 / 14* | *23* | *62.8* | 62.0 | | | 67.0 | *66.3* |
| *Weather loss ratio* | | | | *=20 / 2* | *24* | *2.3* | *2.3* | | | *2.6* | *2.5* |
| *Large loss ratio* | | | | *=21 / 2* | *25* | *10.1* | *9.9* | | | *10.0* | *9.7* |
| *Current year attritional loss ratio ◊* | | | | *=19 / 2* | *26* | *50.6* | *50.4* | | | *55.0* | *54.9* |
| *Prior year effect on loss ratio* | | | | *=23 - 24 - 25 - 26* | *27* | *(0.2)* | *(0.6)* | | | *(0.6)* | *(0.8)* |
| Commission ratio (%) | | | | *=16 / 14* | *28* | 13.0 | 13.0 | | | 12.9 | *12.6* |
| Expense ratio (%) | | | | *=17 / 14* | *29* | 16.1 | 16.1 | | | 14.7 | *14.7* |
| **Combined ratio (%)◊** | | **91.8** | | *=23 + 28 + 29* | *30* | **91.9** | **91.1** | | | **94.6** | ***93.6*** |

### Scandinavia

| £m unless stated | Current year | Prior year | FY 2020 total | Current year | Prior year | FY 2019 total |
|---|---|---|---|---|---|---|
| **Net written premiums** | **1,786** | **(22)** | **1,764** | **1,772** | **(8)** | **1,764** |
| Net earned premiums | 1,750 | (22) | 1,728 | 1,774 | (7) | 1,767 |
| Net incurred claims | (1,187) | 61 | (1,126) | (1,269) | 36 | (1,233) |
| Commissions | (65) | - | (65) | (64) | (1) | (65) |
| Operating expenses | (234) | (12) | (246) | (239) | (7) | (246) |
| **Underwriting result** | **264** | **27** | **291** | **202** | **21** | **223** |
| | | | | | | |
| CY attritional claims | (1,056) | | | (1,124) | | |
| Weather claims | (4) | | | (7) | | |
| Large losses | (127) | | | (138) | | |
| Net incurred claims | (1,187) | | | (1,269) | | |
| | | | | | | |
| Loss ratio (%) | | | 65.2 | | | 69.8 |
| *Weather loss ratio* | | | *0.2* | | | *0.4* |
| *Large loss ratio* | | | *7.2* | | | *7.8* |
| *Current year attritional loss ratio* | | | *60.4* | | | *63.4* |
| *Prior year effect on loss ratio* | | | *(2.6)* | | | *(1.8)* |
| Commission ratio (%) | | | 3.7 | | | 3.7 |
| Expense ratio (%) | | | 14.3 | | | 13.9 |
| **Combined ratio (%)** | **84.9** | | **83.2** | | | **87.4** |

## COMBINED RATIO DETAIL

### Canada

| £m unless stated | Current Year | Prior year | **FY 2020 total** | Current year | Prior year | **FY 2019 total** |
|---|---|---|---|---|---|---|
| **Net written premiums** | **1,691** | **1** | **1,692** | **1,735** | **-** | **1,735** |
| Net earned premiums | 1,702 | - | 1,702 | 1,723 | - | 1,723 |
| Net incurred claims | (991) | (28) | (1,019) | (1,190) | 14 | (1,176) |
| Commissions | (204) | - | (204) | (209) | - | (209) |
| Operating expenses | (280) | - | (280) | (244) | - | (244) |
| **Underwriting result** | **227** | **(28)** | **199** | **80** | **14** | **94** |
| | | | | | | |
| CY attritional claims | (809) | | | (966) | | |
| Weather claims | (64) | | | (86) | | |
| Large losses | (118) | | | (138) | | |
| Net incurred claims | (991) | | | (1,190) | | |
| | | | | | | |
| Loss ratio (%) | | | 59.8 | | | 68.2 |
| *Weather loss ratio* | | | *3.7* | | | *5.0* |
| *Large loss ratio* | | | *6.9* | | | *8.0* |
| *Current year attritional loss ratio* | | | *47.5* | | | *56.0* |
| *Prior year effect on loss ratio* | | | *1.7* | | | *(0.8)* |
| Commission ratio (%) | | | 12.0 | | | 12.1 |
| Expense ratio (%) | | | 16.5 | | | 14.2 |
| **Combined ratio (%)** | **86.6** | | **88.3** | | | **94.5** |

### UK&I

| £m unless stated | Current year | Prior year | **FY 2020 total** | **FY 2020 ex. exits** | Current year | Prior year | **FY 2019 total** | **FY 2019 ex exits** |
|---|---|---|---|---|---|---|---|---|
| **Net written premiums** | **2,712** | **19** | **2,731** | **2,728** | **2,847** | **34** | **2,881** | ***2,864*** |
| Net earned premiums | 2,769 | 11 | 2,780 | 2,765 | 2,955 | 26 | 2,981 | *2,893* |
| Net incurred claims | (1,729) | (3) | (1,732) | (1,678) | (1,855) | (26) | (1,881) | *(1,773)* |
| Commissions | (535) | (4) | (539) | (533) | (558) | - | (558) | *(534)* |
| Operating expenses | (467) | - | (467) | (464) | (457) | - | (457) | *(442)* |
| **Underwriting result** | **38** | **4** | **42** | **90** | **85** | **-** | **85** | ***144*** |
| | | | | | | | | |
| CY attritional claims | (1,267) | | | (1,252) | (1,450) | | | *(1,398)* |
| Weather claims | (94) | | | (90) | (74) | | | *(65)* |
| Large losses | (368) | | | (354) | (331) | | | *(299)* |
| CY net incurred claims | (1,729) | | | (1,696) | (1,855) | | | *(1,762)* |
| | | | | | | | | |
| Loss ratio (%) | | | 62.3 | 60.7 | | | 63.1 | *61.3* |
| *Weather loss ratio* | | | *3.4* | *3.3* | | | *2.5* | *2.3* |
| *Large loss ratio* | | | *13.3* | *12.9* | | | *11.2* | *10.4* |
| *Current year attritional loss ratio* | | | *45.7* | *45.4* | | | *49.1* | *48.7* |
| *Prior year effect on loss ratio* | | | *(0.1)* | *(0.9)* | | | *0.3* | *(0.1)* |
| Commission ratio (%) | | | 19.4 | 19.2 | | | 18.7 | *18.4* |
| Expense ratio (%) | | | 16.8 | 16.8 | | | 15.3 | *15.3* |
| **Combined ratio (%)** | **98.6** | | **98.5** | **96.7** | | | **97.1** | ***95.0*** |

# APPENDIX II

## 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 26 and 27 of the Annual Report and Accounts 2019. 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:<br>COR = loss ratio + commission ratio + expense ratio, where<br>Loss ratio = net incurred claims/ net earned premiums<br>Commission ratio = commissions/ net earned premiums<br>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 | |

| Term | Definition | APM | Reconciliation | |
|---|---|---|---|---|
| **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. | | | |
| **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. | | | |

<table>
<tr><th>Term</th><th colspan="2">Definition</th><th>APM</th><th colspan="2">Reconciliation</th></tr>
<tr><td>Net Asset Value (NAV) per Share</td><td colspan="2">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.</td><td>◊</td><td>3</td><td>E</td></tr>
<tr><td>Net Earned Premium (NEP)</td><td colspan="2">The proportion of premium written, net of the cost of associated reinsurance, which represents the consideration charged to policyholders for providing insurance cover during the reporting period.</td><td></td><td></td><td></td></tr>
<tr><td>Net Incurred Claims (NIC)</td><td colspan="2">The total claims cost incurred in the period less any share that is borne by reinsurers. It includes both claims payments and movements in claims reserves and claims handling expenses in the period.</td><td></td><td></td><td></td></tr>
<tr><td>Net Written Premium (NWP)</td><td colspan="2">Premium written or processed in the period, irrespective of whether it has been paid, less the amount shared with reinsurers.</td><td></td><td></td><td></td></tr>
<tr><td rowspan="8">Other Charges</td><td colspan="2">Other charges represents items that are excluded to arrive at business operating result and underlying profit measures.</td><td>◊</td><td>1</td><td>AD</td></tr>
<tr><th>Item</th><th>Reason for classification</th><td rowspan="7">◊</td><td rowspan="7">1</td><td rowspan="7">AD</td></tr>
<tr><td>Amortisation of intangible assets</td><td>To allow meaningful assessment of segmental performance where similar internally generated assets are not capitalised.</td></tr>
<tr><td>Economic assumption changes</td><td>To allow assessment of performance excluding the impact of changes in the discount rate on long-term insurance liabilities.</td></tr>
<tr><td>Gains and losses arising from the disposal of businesses and impairment of goodwill</td><td>To allow assessment of the performance of ongoing business activities.</td></tr>
<tr><td>Pension administration and net interest costs</td><td>Costs that are dependent on the level of defined benefit pension scheme plan funding and arise from servicing past pension commitments.</td></tr>
<tr><td>Realised and unrealised gains and losses on investments/ foreign exchange gains and losses</td><td>To remove the impact of market volatility and investment rebalancing activity.</td></tr>
<tr><td>Reorganisation and transaction costs</td><td>To allow assessment of the performance of ongoing business activities.</td></tr>
<tr><td>Payout Ratio</td><td colspan="2">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.</td><td></td><td></td><td></td></tr>
<tr><td>Policies in Force</td><td colspan="2">The number of active insurance policies for which the Group is providing cover.</td><td></td><td></td><td></td></tr>
<tr><td>Prior Year Underwriting Result</td><td colspan="2">Updates to premium, claims, commission and expense estimates relating to prior years.</td><td>◊</td><td>1</td><td>P</td></tr>
<tr><td>Property and Casualty (P&C)<br>(Non-Life Insurance or General Insurance)</td><td colspan="2">Property insurance covers loss or damage through fire, theft, floods, storms and other specified risks.<br>Casualty insurance primarily covers losses arising from accidents that cause injury to other people or damage to the property of others.</td><td></td><td></td><td></td></tr>
<tr><td>Prudential Regulation Authority (PRA)</td><td colspan="2">The regulatory authority with responsibility for the prudential regulation and supervision of the UK financial services industry.</td><td></td><td></td><td></td></tr>
<tr><td>Pull to Par</td><td colspan="2">The movement of a bond's price toward its face value as it approaches its maturity date.</td><td></td><td></td><td></td></tr>
</table>

| Term | Definition | APM | Reconciliation | |
|---|---|---|---|---|
| **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. | | | |

| Term | Definition | APM | Reconciliation | |
|---|---|---|---|---|
| **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.<br>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 (Management) | Investment result (Management) | Central costs (Management) | Business operating result (Management) | Other charges (Management) | 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% |

## 1. IFRS reconciliation to management P&L
## For the 12 months ended 31 December 2019

| £'m | IFRS | | Underwriting result | Investment result | Central costs | Business operating result | Other charges | Profit before tax |
|---|---|---|---|---|---|---|---|---|
| | | | Management | | | | | |
| **Income** | | | | | | | | |
| Gross written premiums | 7,461 | | 7,461 | | | | | |
| Less: reinsurance premiums | (1,044) | | (1,044) | | | | | |
| Net written premiums | 6,417 | | 6,417 | | | | | |
| Change in the gross provision for unearned premiums | 34 | | 34 | | | | | |
| Change in provision for unearned reinsurance premiums | 11 | | 11 | | | | | |
| Change in provision for unearned premiums | 45 | | 45 | | | | | |
| Net earned premiums, analysed as | 6,462 | **A** | 6,462 | | | | | |
| Current year | | **B** | 6,442 | | | | | |
| Prior year | | **C** | 20 | | | | | |
| | | | 6,462 | | | | | |
| Investment income | 306 | **D** | | 306 | | | | |
| Realised gains on investments | 15 | | | | | | 15 | |
| Gains on 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% |

### 2. Metric calculations

| | | | 2020 £m | 2019 £m |
|---|---|---|---|---|
| | | **Profit after tax** | 364 | 383 |
| | | Less: non-controlling interest | (19) | (24) |
| Note 12 | | Less: tier 1 notes coupon payment | (16) | (14) |
| Note 12 | | 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 13 | | 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** |

### 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 13 | | Less: closing goodwill and intangibles | (868) | (837) |
| | **B** | **Tangible net asset value** | **3,274** | **2,910** |
| | **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 8 | **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)%** |

| **5. Controllable expenses** | | | **2020** | **2019** |
|---|---|---|---|---|
| | | | **£m** | **£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* | 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* | 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%** |

*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)** |

## 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**

| | | | UK | UK & International | Group |
|---|---|---|---|---|---|
| **2020 reported** | | | | | |
| £m (unless stated) | | | | | |
| | **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.

| 2019 reported<br>£m (unless stated) | | | UK | UK & International | Central functions | Group |
|---|---|---|---|---|---|---|
| | 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.

# APPENDIX III

## Other information

## REPORTING AND DIVIDEND TIMETABLE

**Reporting:**

| | |
|---|---|
| Annual General Meeting | 29 June 2021 |

**1st preference dividend:**

| | |
|---|---|
| Announcement date | 26 February 2021 |
| Ex-dividend date | 4 March 2021 |
| Record date | 5 March 2021 |
| Dividend payment date | 1 April 2021 |

## PREFERENCE SHARE DIVIDEND

In accordance with the original subscription terms, qualifying registered holders of the 7 3/8 percent cumulative irredeemable preference shares of £1 each will receive the second preference dividend at a rate of 3.6875p per share.

## OTHER INFORMATION

LEI number: 549300HOGQ7E0TY86138.

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**Important disclaimer**

This press release and the associated conference call may contain 'forward-looking statements' with respect to certain of the Group's plans and its current goals and expectations relating to its future financial condition, performance, results, strategic initiatives and objectives. Generally, words such as "may", "could", "will", "expect", "intend", "estimate", "anticipate", "aim", "outlook", "believe", "plan", "seek", "continue" or similar expressions identify forward-looking statements. These forward-looking statements are not guarantees of future performance. By their nature, all forward-looking statements are inherently predictive and speculative and involve risk and uncertainty because they relate to future events and circumstances which are beyond the Group's control, including amongst other things, UK domestic and global economic business conditions, market-related risks such as fluctuations in interest rates and exchange rates, the policies and actions of regulatory authorities, the impact of competition, inflation, deflation, the timing impact and other uncertainties of future acquisitions or combinations within relevant industries, as well as the impact of tax and other legislation or regulations in the jurisdictions in which the Group and its affiliates operate. As a result, the Group's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set forth in the Group's forward-looking statements. Forward-looking statements in this announcement are current only as of the date on which such statements are made. The Group undertakes no obligation to update any forward-looking statements, save in respect of any requirement under applicable law or regulation. Nothing in this announcement shall be construed as a profit forecast.

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## CONDENSED CONSOLIDATED INCOME STATEMENT
## STATUTORY BASIS
**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 | 8 | **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 | 9 | **217** | 296 |
| Other operating income | | **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 | | **(3,890)** | (4,332) |
| Underwriting and policy acquisition costs | | **(1,936)** | (1,919) |
| Unwind of discount and change in economic assumptions | 23 | **(39)** | (46) |
| Other operating expenses | | **(160)** | (64) |
| | | **(6,025)** | (6,361) |
| Finance costs | | **(33)** | (32) |
| Loss on disposal of businesses | 6 | **(6)** | (14) |
| Net share of profit after tax of associates | | **1** | 1 |
| **Profit before tax** | 8 | **483** | 492 |
| Income tax expense | 10 | **(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 | 11 | **30.9p** | 32.6p |
| Diluted | 11 | **30.8p** | 32.5p |
| **Ordinary dividends paid and proposed for the year** | | | |
| Interim dividend paid | 12 | **8.0p** | 7.5p |
| Final dividend proposed[1] | 12 | **-** | 15.6p |

[1] The 2019 proposed final dividend of 15.6p was suspended. Refer to note 12 for further information.

The attached notes on pages 53 to 104 form an integral part of these condensed consolidated financial statements.

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
## STATUTORY BASIS
**For the year ended 31 December 2020**

| | 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 | **55** | (85) |
| Fair value gains on available for sale financial assets net of tax | **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 | **(25)** | (86) |
| Movement in property revaluation surplus net of tax | **-** | 1 |
| | **(25)** | (85) |
| | | |
| **Total other comprehensive income/(expense) for the year** | **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 53 to 104 form an integral part of these condensed consolidated financial statements.

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
# STATUTORY BASIS
### For the year ended 31 December 2020

| | Ordinary share capital | Ordinary share premium | Own shares | Preference shares | Tier 1 notes | Revaluation reserves | Capital redemption reserve | Foreign currency translation reserve | Retained earnings | Equity attributable to owners of the Parent Company[1] | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £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) | - | - | - | - | - | 107 | - | (64) | (86) | (43) | (6) | (49) |
| | - | - | - | - | - | 107 | - | (64) | 273 | 316 | 18 | 334 |
| **Transactions with owners of the Group** | | | | | | | | | | | | |
| **Contribution and distribution** | | | | | | | | | | | | |
| Dividends (note 12) | - | - | - | - | - | - | - | - | (242) | (242) | (13) | (255) |
| Shares issued for cash (note 20) | 1 | 3 | - | - | - | - | - | - | - | 4 | - | 4 |
| Share-based payments (note 20) | 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) | **-** | **-** | **-** | **-** | **-** | **112** | **-** | **46** | **(25)** | **133** | **(5)** | **128** |
| | **-** | **-** | **-** | **-** | **-** | **112** | **-** | **46** | **320** | **478** | **14** | **492** |
| **Transactions with owners of the Group** | | | | | | | | | | | | |
| **Contribution and distribution** | | | | | | | | | | | | |
| Dividends (note 12) | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(108)** | **(108)** | **(13)** | **(121)** |
| Shares issued for cash (note 20) | **1** | **5** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **6** | **-** | **6** |
| Share-based payments (note 20) | **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 53 to 104 form an integral part of these condensed consolidated financial statements.

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## STATUTORY BASIS
### As at 31 December 2020

| | Note | 2020 £m | 2019 £m |
|---|---|---|---|
| **Assets** | | | |
| Goodwill and other intangible assets | 13 | **868** | 837 |
| Property and equipment | | **237** | 296 |
| Investment property | | **285** | 300 |
| Investments in associates | | **5** | 4 |
| Financial assets | 14 | **11,826** | 11,422 |
| Total investments | | **12,116** | 11,726 |
| Reinsurers' share of insurance contract liabilities | 16 | **2,340** | 2,326 |
| Insurance and reinsurance debtors | 17 | **2,989** | 2,923 |
| Deferred tax assets | 18 | **199** | 209 |
| Current tax assets | 18 | **23** | 18 |
| Other debtors and other assets | | **840** | 718 |
| Other assets | | **1,062** | 945 |
| Cash and cash equivalents | 19 | **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 | 22 | **751** | 750 |
| Insurance contract liabilities | 23 | **12,614** | 12,307 |
| Insurance and reinsurance liabilities | 24 | **932** | 970 |
| Borrowings | | **132** | 169 |
| Deferred tax liabilities | 18 | **105** | 84 |
| Current tax liabilities | 18 | **40** | 17 |
| Provisions | | **172** | 147 |
| Other liabilities | | **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 53 to 104 form an integral part of these condensed 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

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
## STATUTORY BASIS
**For the year ended 31 December 2020**

| | Note | **2020** £m | 2019 £m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operating activities | 27 | **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 | | **(23)** | (8) |
| Intangible assets | 13 | **(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 | 22 | **-** | 348 |
| Dividends paid to ordinary shareholders | 12 | **(83)** | (219) |
| Coupon payment on Tier 1 notes | 12 | **(16)** | (14) |
| Dividends paid to preference shareholders | 12 | **(9)** | (9) |
| Dividends paid to non-controlling interests | | **(13)** | (13) |
| Redemption of debt instruments | | **-** | (39) |
| Payment of lease liabilities | | **(44)** | (43) |
| Net movement in other borrowings | | **(33)** | 43 |
| Interest paid | | **(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** | 19 | **1,083** | 886 |

The attached notes on pages 53 to 104 form an integral part of these condensed consolidated financial statements.

## BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

RSA Insurance Group plc (the Company) is a public limited company incorporated and domiciled in England and Wales. The Company through its subsidiaries and associates (together the Group or RSA) provides personal and commercial insurance products to its global customer base, principally in the UK, Europe, Ireland, Middle East (together UK & International), Scandinavia and Canada.

**1) Basis of preparation**

The consolidated financial statements within the full Annual Report and Accounts, from which the financial information within this preliminary announcement has been extracted, 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 condensed consolidated financial information in this report has been prepared by applying the accounting policies used in the 2020 Annual Report and Accounts (see note 29).

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 set out in the respective notes or in the risk management note (note 5).

Except where otherwise stated, all figures included in the consolidated financial statements are presented in millions of pounds sterling (£m).

**2) Significant accounting estimates and judgements**

In preparing these consolidated financial statements, management has made judgements 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 23 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 25 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 18 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 15 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 13 for additional information.

The areas where management has applied judgement are as follows:

- Classification of financial assets in the fair value hierarchy: management apply judgement when deciding to classify financial instruments for which immediate prices are available as being level 1 in the fair value hierarchy and financial assets for which observable prices are also available as level 2 on the basis of a lower level of activity in the market from which those prices are quoted. 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 15 for additional information.
- Impairment of financial assets: determining if there is objective evidence of impairment requires judgement and, in the year to 31 December 2020, **£32m** of impairments have been recognised (note 9). 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 judgements and estimates.

### 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 14 and note 5.

**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.

# RISK MANAGEMENT

## 5) Risk 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 judgements made by the business units as to the level of reserves to be held. It then recommends to the Group Board via the Group Audit Committee the final decision on the level of reserves to be included within the consolidated financial statements. In forming its collective judgement, the committee considers the following information:

- 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.
- 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.

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.

*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** | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | **Neither past due nor impaired** | **Up to three months** | **Three to six months** | **Six months to one year** | **Greater than one year** | **Financial assets that have been impaired** | **Carrying value in the statement of financial position** | **Impairment losses charged/(reversed) to the income statement during the year** |
| | Note | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** |
| Debt securities | 14 | **10,698** | **-** | **-** | **-** | **-** | **26** | **10,724** | **8** |
| Loans and receivables | 14 | **429** | **-** | **-** | **-** | **-** | **-** | **429** | **-** |
| Reinsurers' share of insurance contract liabilities | 16 | **2,337** | **-** | **-** | **-** | **-** | **3** | **2,340** | **-** |
| Insurance and reinsurance debtors[1, 2] | 17 | **2,842** | **81** | **21** | **17** | **5** | **23** | **2,989** | **19** |
| Derivative assets | | **125** | **-** | **-** | **-** | **-** | **-** | **125** | **-** |
| Other debtors | | **178** | **2** | **2** | **3** | **-** | **-** | **185** | **-** |
| Cash and cash equivalents | 19 | **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 17 insurance and reinsurance debtors for further details.

As at 31 December 2019

| | | | Financial assets that are past due but not impaired | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Neither past due nor impaired | Up to three months | Three to six months | Six months to one year | Greater than one year | Financial assets that have been impaired | Carrying value in the statement of financial position | Impairment losses charged/(reversed) to the income statement during the year |
| | Note | £m | £m | £m | £m | £m | £m | £m | £m |
| Debt securities | 14 | 10,411 | - | - | - | - | - | 10,411 | - |
| Loans and receivables | 14 | 338 | - | - | - | - | - | 338 | - |
| Reinsurers' share of insurance contract liabilities | 16 | 2,326 | - | - | - | - | - | 2,326 | - |
| Insurance and reinsurance debtors[1, 2] | 17 | 2,762 | 82 | 38 | 15 | 6 | 20 | 2,923 | 12 |
| Derivative assets | | 98 | - | - | - | - | - | 98 | - |
| Other debtors | | 152 | 23 | - | 6 | 1 | - | 182 | - |
| Cash and cash equivalents | 19 | 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 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.

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** | 2020 | **2021** | 2020 |
| | **£m** | £m | **£m** | £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.

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**

| | | Less than one year | One to two years | Two to three years | Three to four years | Four to five years | Five to ten years | Greater than ten years | Total | Carrying value in the statement of financial position |
|---|---|---|---|---|---|---|---|---|---|---|
| | Note | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| Subordinated guaranteed US$ bonds[1] | 22 | **-** | **-** | **-** | **-** | **-** | **7** | **-** | **7** | **6** |
| Senior notes due 2024[1] | 22 | **-** | **-** | **-** | **350** | **-** | **-** | **-** | **350** | **348** |
| Guaranteed subordinated notes due 2045[1] | 22 | **-** | **-** | **-** | **-** | **400** | **-** | **-** | **400** | **397** |
| Provisions for losses and loss adjustment expenses | 23 | **3,106** | **1,885** | **1,108** | **721** | **492** | **1,088** | **979** | **9,379** | **9,379** |
| Direct insurance creditors | 24 | **121** | **-** | **-** | **-** | **-** | **-** | **-** | **121** | **121** |
| Reinsurance creditors | 24 | **537** | **201** | **73** | **-** | **-** | **-** | **-** | **811** | **811** |
| Borrowings | | **132** | **-** | **-** | **-** | **-** | **-** | **-** | **132** | **132** |
| Deposits received from reinsurers | | **8** | **-** | **-** | **-** | **-** | **-** | **-** | **8** | **8** |
| Derivative liabilities | | **32** | **-** | **-** | **2** | **4** | **2** | **105** | **145** | **145** |
| Lease liabilities[1] | | **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

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 | Carrying value in the statement of financial position £m |
|---|---|---|---|---|---|---|---|---|---|---|
| Subordinated guaranteed US$ bonds[1] | 22 | - | - | - | - | - | 7 | - | 7 | 6 |
| Senior notes due 2024[1] | 22 | - | - | - | - | 350 | - | - | 350 | 348 |
| Guaranteed subordinated notes due 2045[1] | 22 | - | - | - | - | - | 400 | - | 400 | 396 |
| Provisions for losses and loss adjustment expenses | 23 | 2,878 | 1,761 | 1,160 | 713 | 514 | 1,149 | 966 | 9,141 | 9,141 |
| Direct insurance creditors | 24 | 126 | 1 | - | - | - | - | - | 127 | 127 |
| Reinsurance creditors | 24 | 576 | 195 | 72 | - | - | - | - | 843 | 843 |
| Borrowings | | 169 | - | - | - | - | - | - | 169 | 169 |
| Deposits received from reinsurers | | 11 | - | - | - | - | - | - | 11 | 11 |
| Derivative liabilities | | 4 | 15 | - | - | 2 | 7 | 67 | 95 | 95 |
| Lease liabilities[1] | | 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 22.

***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 25.

## SIGNIFICANT TRANSACTIONS AND EVENTS

### 6) 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.

### 7) 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 8) includes **£29m** in respect of redundancy (2019: £15m), **£17m** information systems outsourcing rationalisation (2019: £5m), **£16m** reduction in premises footprint (2019: £2m) and **£16m** other restructuring activity (2019: £5m).

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

### 8) Segmental information

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

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

**Assessing segment performance**

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

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

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

Underwriting result, COR and business operating result are Alternative Performance Measures (APMs) and the key internal measures of profitability of the operating segments. The COR reflects the ratio of claims costs and expenses (including commission) to earned premiums, expressed as a percentage. Further information on APMs can be found on pages 33 to 43.

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] | Canada | UK & International | Central Functions | Total Group |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £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 | | | | | 6 |
| Unrealised losses, impairments of investments and foreign exchange | | | | | (63) |
| Interest costs | | | | | (33) |
| Amortisation of intangible assets (note 13) | | | | | (11) |
| Impairment of goodwill (note 13) | | | | | (14) |
| Pension net interest and administration costs (note 25) | | | | | 1 |
| Reorganisation costs (note 7) | | | | | (78) |
| Change in economic assumptions (note 23) | | | | | (8) |
| Transaction costs[2] | | | | | (14) |
| Loss on disposal of businesses (note 6) | | | | | (6) |
| **Profit before tax** | | | | | **483** |
| Tax on operations (note 10) | | | | | (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 17 insurance and reinsurance debtors.
[2] Transaction costs relate to central costs incurred in relation to the proposed takeover of RSA.

Year ended 31 December 2019

| | Scandinavia | Canada | UK & International | Central Functions | Total Group |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £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 | | | | | 15 |
| Unrealised losses, impairments of investments and foreign exchange | | | | | (24) |
| Interest costs | | | | | (32) |
| Amortisation of intangible assets (note 13) | | | | | (12) |
| Pension net interest and administration costs (note 25) | | | | | 4 |
| Reorganisation costs (note 7) | | | | | (27) |
| Change in economic assumptions (note 23) | | | | | (15) |
| Loss on disposal of businesses (note 6) | | | | | (14) |
| **Profit before tax** | | | | | 492 |
| Tax on operations (note 10) | | | | | (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 press release, includes an £8m reclassification of claims recoveries from Central Functions. This reclassification is not made in the Group consolidated financial statements.

### 9) Net investment return

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

| | **Investment income** | | **Net realised gains/(losses)** | | **Net unrealised losses** | | **Impairments** | | **Total investment return** | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 | **2020** | 2019 | **2020** | 2019 | **2020** | 2019 |
| | **£m** | £m | **£m** | £m | **£m** | £m | **£m** | £m | **£m** | £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.

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** | 2019 | **2020** | 2019 | **2020** | 2019 | **2020** | 2019 |
| | **£m** | £m | **£m** | £m | **£m** | £m | **£m** | £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 |

**10) Income tax**

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

| | **2020** | 2019 |
|---|---|---|
| | **£m** | £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** | 2019 |
|---|---|---|
| | **£m** | £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.

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** | 2019 | **2020** | 2019 | **2020** | 2019 |
| | **£m** | £m | **£m** | £m | **£m** | £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 judgement 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.

### 11) 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 12) | **(9)** | (9) |
| Less: Tier 1 notes coupon payment (£m) (note 12) | **(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 20 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.

### 12) Dividends paid and proposed

| | **2020** | 2019 | **2020** | 2019 |
|---|---|---|---|---|
| | **p** | p | **£m** | £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 21).

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.

### 13) Goodwill and intangible assets

| | Goodwill | Intangible assets arising from acquired claims provisions | Externally acquired software | Internally generated software | Customer related intangibles | Total |
|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £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 | Intangible assets arising from acquired claims provisions | Externally acquired software | Internally generated software | Customer related intangibles | Total |
|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £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.

**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. 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**<br>**£m** | 2019<br>£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.

| | Goodwill | Recoverable amount less carrying value | Change in recoverable amount less carrying value: Discount rate +1% | Change in recoverable amount less carrying value: Weighted average growth rate - 1% |
|---|---|---|---|---|
| | **£m** | **£m** | **£m** | **£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)** |

## 14) Financial assets

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

**As at 31 December 2020**

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

As at 31 December 2019

| | At fair value through profit and loss (FVTPL) | Available for sale | Loans and receivables | Total | Expected to be recovered: Within 12 months | Expected to be recovered: After 12 months |
|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £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 |

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

| | 2020 | | | | 2019 |
|---|---|---|---|---|---|
| | Cost/amortised cost | Unrealised gains | Unrealised losses | Fair value | Fair value |
| | £m | £m | £m | £m | £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 | From 1 to 5 years | Over 5 years | Total | Asset | Liability |
| | £m | £m | £m | £m | £m | £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** | | | | | **40** | **48** |
| **At FVTPL** | | | | | | |
| Currency risk mitigation | **580** | **-** | **-** | **580** | **7** | **2** |
| Inflation risk mitigation | **60** | **15** | **240** | **315** | **78** | **95** |
| **Total** | | | | | **85** | **97** |
| **Total derivatives** | | | | | **125** | **145** |

As at 31 December 2019

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

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 (2019: recognised within foreign exchange gains in other operating income). 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). 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** | **Amounts offset** | **Net amounts reported** | **Financial instruments** | **Financial collateral** | **Net amount** |
| | **£m** | **£m** | **£m** | **£m** | **£m** | **£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 | Amounts offset | Net amounts reported | Financial instruments | Financial collateral | Net amount |
| | £m | £m | £m | £m | £m | £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.

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

As at 31 December 2019

| | SPPI financial assets | Other financial assets | Total |
|---|---|---|---|
| | £m | £m | £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 5.

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.

## 15) 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.

### Derivative financial instruments

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

### Issued debt

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

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

**Fair value hierarchy**

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

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

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

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

In certain circumstances, the Group does not receive pricing information from an external provider for its financial investments. In such circumstances the Group calculates fair value, which may use input parameters that are not based on observable market data. Unobservable inputs are based on assumptions that are neither supported by prices from observable current market transactions for the same instrument nor based on available market data. In these cases, judgement is required to establish fair values. 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 81.

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.

| | Fair value hierarchy | | | |
|---|---|---|---|---|
| | 2020 | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| | £m | £m | £m | £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 | Level 2 | Level 3 | Total |
| | £m | £m | £m | £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.

The movement in the fair value measurements of level 3 financial assets is shown in the table below:

| | **Available for sale investments** | | | | | |
|---|---|---|---|---|---|---|
| | **Equity securities** | **Debt securities** | **Debt securities at FVTPL** | **Investment property** | **Group occupied property** | **Total** |
| | **£m** | **£m** | **£m** | **£m** | **£m** | **£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] | |
| | | **Current fair value** | **Decrease in fair value** | Current fair value | Decrease in fair value |
| **Available for sale financial assets and property** | **Main assumptions** | **£m** | **£m** | £m | £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.

### 16) Reinsurers' share of insurance contract liabilities

| | **2020** | 2019 |
|---|---|---|
| | **£m** | £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** | 2019 |
|---|---|---|
| | **£m** | £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 |

**17) 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 8 segmental information.

**18) 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 judgement that the carrying value of deferred tax assets continues to be supportable.

The majority of the deferred tax asset recognised based on future profits is that in respect of the UK. The evidence for the future taxable profits is a seven-year forecast based on the three year operational plans prepared by the relevant businesses and a further four years of extrapolation, which are subject to internal review and challenge, including by the Board. The four years of extrapolation assumes 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** | 2019 |
|---|---|---|
| | **£m** | £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.

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** | **DTA** |
|---|---|---|
| | **£m** | **£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 |

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.

### 19) Cash and cash equivalents

| | **2020**<br>**£m** | 2019<br>£m |
|---|---|---|
| Cash and cash equivalents, and bank overdrafts (consolidated statement of cash flows) | **1,083** | 886 |
| Add: Overdrafts reported in other borrowings | **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.

### 20) 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**<br>**£m** | 2019<br>£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 |

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**<br>**£m** | **Share premium**<br>**£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).

**21) 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.

## 22) 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.

## 23) Insurance contract liabilities

### Estimation techniques and uncertainties

Provisions for losses and loss adjustment expenses are subject to a robust reserving process by each of the Group's business units and at Group Corporate Centre, as detailed in the risk management note (note 5).

There is considerable uncertainty 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.

**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 5.

| 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 | |
|---|---|---|---|---|---|
| | | **2020** | 2019 | **2020** | 2019 |
| | Category | **%** | % | **Years** | 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 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 |

**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 | 2019 |
|---|---|---|
| | £m | £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.

## Consolidated claims development table gross of reinsurance

| | 2010 and prior | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £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** |

## Consolidated claims development table net of reinsurance

| | 2010 and prior | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £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** |

## 24) Insurance and reinsurance liabilities

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

## 25) 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** | **Other** | **Total** | UK | Other | Total |
| | **£m** | **£m** | **£m** | £m | £m | £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 | **333** | **46** | **379** | 261 | 29 | 290 |
| Schemes in deficit | **(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.

#### *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 judgement, due to the unique characteristics of the swap, and the rate is selected to most closely reflect the economic matching nature of the arrangement within a range of acceptable values obtained from external sources. The total value of the arrangement, including government debt measured at prices quoted in an active market, at 31 December 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.

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.

***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 | Fair value of plan assets | Other net surplus remeasurements | Net surplus/ (deficit) |
| | £m | £m | £m | £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 | Fair value of plan assets | Other net surplus remeasurements | Net surplus/ (deficit) |
| | £m | £m | £m | £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 |

The values of scheme assets are as follows:

| | **2020** | | | 2019 | | |
|---|---|---|---|---|---|---|
| | **UK** | **Other** | **Total** | UK | Other | Total |
| | **£m** | **£m** | **£m** | £m | £m | £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 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | **Total Quoted** | **Total Unquoted** | **Total** | Total Quoted | Total Unquoted | Total |
| | **£m** | **£m** | **£m** | £m | £m | £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

**Assumptions**

The weighted average principal actuarial assumptions used are:

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

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

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

**Mortality rate**

The mortality assumptions are set following investigations of the main schemes' recent experience carried out by independent actuaries as part of the most recent funding valuations. The core mortality rates assumed for the main UK schemes follow industry-standard tables with percentage adjustments to reflect the schemes' recent experience compared with that expected under these tables.

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

**Sensitivity analysis**

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

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

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

[2] Reducing the core mortality rates by 12% is the equivalent of increasing the life expectancy of a male aged 60 years by 1 year.

## 26) 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.

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

***Right-of-use assets***

| | Land and buildings | Other | Total |
|---|---|---|---|
| | £m | £m | £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:

I. 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

II. 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.

III. 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. The maturity analysis of this balance can be found in note 5 on page 63.

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).

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** | 2019 |
|---|---|---|
| | **£m** | £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** | 2019 |
|---|---|---|
| | **£m** | £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. 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** | 2019 |
| | **£m** | £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 |

### *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** | 2019 |
| | **£m** | £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 CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

### 27) 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 | | **74** | 59 |
| Amortisation and impairment of intangible assets and goodwill | 13 | **100** | 84 |
| Fair value (gains) / losses on financial assets | | **-** | 1 |
| Impairment charge on available for sale financial assets | 9 | **32** | - |
| Share of profit of associates | | **(1)** | (1) |
| Loss on disposal of businesses | 6 | **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 | 25 | **(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 |

## EVENTS AFTER THE REPORTING PERIOD

### 28) 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.

## RESULTS FOR THE YEAR 2020

### 29) Results for the year 2020

This financial information set out above does not constitute statutory accounts for the years ended 31 December 2020 or 31 December 2019 but is derived from those accounts. Statutory accounts for 2019 have been delivered to the Registrar of Companies, and those for 2020 will be delivered in due course. The auditors have reported on those accounts; their reports were (i) unqualified (ii) did not include reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not include a statement under section 498(2) or (3) of the Companies Act 2006.

## APPENDIX A: EXCHANGE RATES

| Local currency/£ | **2020** | | 2019 | |
|---|---|---|---|---|
| | **Average** | **Closing** | Average | Closing |
| Canadian Dollar | **1.72** | **1.74** | 1.70 | 1.72 |
| Danish Krone | **8.39** | **8.31** | 8.52 | 8.82 |
| Swedish Krona | **11.81** | **11.22** | 12.08 | 12.40 |
| Euro | **1.13** | **1.12** | 1.14 | 1.18 |

## RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

A) The financial statements within the full Annual Report and Accounts, from which the financial information within this preliminary announcement has been extracted, are prepared 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, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group

B) The management report within this preliminary announcement includes a fair review of the development and performance of the business and the position of the Group

C) The risk management section within this preliminary announcement includes a description of the principal risks and uncertainties faced by the Group

Signed on behalf of the Board

**Stephen Hester**
Group Chief Executive

25 February 2021

**Charlotte Jones**
Group Chief Financial Officer

25 February 2021