

RSA Insurance Group Limited

Annual Report and Accounts 2021



Our Purpose

To help people,
businesses and
society prosper in
good times and be
resilient in bad times.

We built our business with help in mind
– it's why we exist.

Our Values



Integrity

- Be honest, open and fair
- Set high standards
- Stand up for what is right



Respect

- Be kind
- See diversity as a strength
- Be inclusive and collaborate



Customer-driven

- Listen to our customers
- Make it easy, find solutions
- Deliver second-to-none experiences



Excellence

- Act with discipline and drive to outperform
- Embrace change, improve every day
- Celebrate success, yet remain humble



Generosity

- Help others
- Protect the environment
- Make our communities more resilient

Our purpose and values are
shared with our parent company,
Intact Financial Corporation.

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RSA UK & International

For more than 300 years, RSA has been protecting individuals and businesses from risk. In 2021 we became part of Intact, to continue our critical role.

In accordance with the Companies Act 2006, the Directors present their Strategic Report for the year ended 31 December 2021.

RSA Insurance Group Limited (the Company), formerly RSA Insurance Group plc, was re-registered as a private limited company on 26 May 2021 and 100% of the Company's ordinary share capital was purchased by Regent Bidco Limited, a wholly owned subsidiary of Intact Financial Corporation (IFC or Intact), on 1 June 2021 (the Acquisition). On 1 June 2021, the Company disposed of its operations in Scandinavia (Codan A/S) and Canada (Roins Holdings Limited), and these have been classified as discontinued operations (refer to note 7 Discontinued operations for further information¹).

The Company is a member of the RSA Insurance Group of companies which continues to operate in the UK, Ireland, Continental Europe and the Middle East (the Group, RSA or UK&I).

A number of the Company's subsidiaries are regulated by the Financial Conduct Authority and/or the Prudential Regulation Authority.

Principal activity

The principal activity of the Group is the transaction of insurance and related financial services.

In the UK, RSA holds a top 5 position in each of domestic commercial lines, personal property and pet insurance. Personal motor, property, and pet insurance is offered to our customers through MORE TH>N and affinity partners, which include major retailers and large banks. Commercial Lines in the UK are offered through the RSA brand via brokers.

In Ireland, RSA is one of the largest multi-line insurers in the market, distributing through 123.ie (our direct to consumer brand), affinity partnerships and brokers. In addition, we are Ireland's largest commercial wind energy insurer.

We provide a suite of Personal Lines products in the Middle East. We own 50% of the operations in Bahrain, the United Arab Emirates and Oman (where RSA operates under the Al Ahlia brand) and Saudi Arabia (where RSA operates under the Al Alamiya brand).

Business Model

a. Products that protect our customers:

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

b. Effective product distribution:

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

c. Understanding risk to price correctly:

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

d. Proactively managing claims:

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

Business review

The Group reports a profit before tax of £4,332m for the year ended 31 December 2021, of which continuing operations contributed a loss of £228m and discontinued operations a profit of £4,560m (31 December 2020: £17m loss and £500m profit respectively).

Continuing losses before tax of £228m consisted of £137m underwriting losses (2020: £33m profit), £110m investment result income (2020: £110m), £11m central costs (2020: £12m) and £190m of other charges (2020: £148m).

On the same continuing basis, profitable current year underwriting performance was outweighed by reserve and margin strengthening of approximately £180m, to reflect evolving estimation uncertainty and to align to IFC practices (refer to note 39 Insurance contract liabilities¹). The underwriting result was further impacted by a £72m write-down of software assets (refer to note 23 Goodwill and intangible assets¹) and a £34m net impact relating to a reinsurance contract purchase for adverse development cover (which will reduce the potential volatility in the Group's historical claims liabilities), including partial offset from reduced reserve margin in light of the increased reinsurance protection. Other charges were also impacted, with £136m acquisition and integration costs, and £53m debt buyback costs (refer to note 37 Issued debt¹).

Profit from discontinued operations before tax included a £4,393m gain on the disposal of the Group's operations in Scandinavia and Canada (refer to note 7 Discontinued operations¹).

Net written premiums were £4,474m of which £3,293m were in respect of continuing operations and £1,181m from discontinued (2020: £3,038m and £3,185m respectively).

Net assets of the Group are £3,091m (2020: £4,730m).

Related party transactions

The Group received capital injections from Regent Bidco Limited of £1,021m and £275m during the period, the latter of which was used to fund the repurchase of its guaranteed subordinated notes (Tier 2 notes). The Group also declared a dividend in specie of £6,914m. Refer to note 17 for further information on all related party transactions¹.

Key performance indicators (KPIs)

The Group use both IFRS and non-IFRS financial measures (Alternative Performance Measures, APMs) to assess performance, including common insurance industry metrics.

As the Group is now a wholly owned subsidiary of IFC, with no publicly listed ordinary share capital, the KPIs reported by the Group have been reassessed and have reduced.

The KPIs most relevant to the financial performance of the Group are now as follows:

- **Net written premiums for continuing operations £3,293m** (2020: £3,038m): premiums inception in the period, irrespective of whether they have been paid, less the amount shared with reinsurers. They represent how much premium the Group gets to keep for assuming risk. The Group targets growth – that is without compromising underwriting performance.
- **Underwriting result² for continuing operations £137m loss** (2020: £33m profit): net earned premium and other operating income less net claims and underwriting and policy acquisition costs. The Group aims to achieve an underwriting result that is as sustainably high as possible – that is without uncompetitive pricing or compromising reserves. The Group targets further improvements to its underwriting result.
- **Loss/profit before tax for continuing operations £228m loss** (2020: £17m loss): net loss/profit generated before taxes have been deducted. This is a key statutory measure of the earnings performance of the Group. The impact of tax can vary from company to company, therefore excluding this enhances comparability. The Group seeks to maximise its profit before tax.

In both 2020 and 2021 the results, and therefore some of these KPIs have been significantly impacted by the transaction and transition costs of the takeover.

Information contained in the Customer section below, the ESG section and the People section in the Directors' report on pages 23 to 25 and our principal risks on page 7 form the non-financial information statement.

Our operations

The Company's operations remained resilient during the year. The majority of our workforce has been working from home during the Covid-19 pandemic, reflecting guidelines set by local governments. Significant resource has been deployed to ensure our people have received the appropriate support regarding physical and mental well-being during remote working. Operationally, we have continued to make improvements to our IT architecture and successfully migrated to a new cloud based mainframe to support our UK systems and processes.

During 2021, where and when guidelines permitted, there was some voluntary return to the office supported by hybrid arrangements to ensure effective working from the office and home.

Principal risks and uncertainties

Following the disposal of the Group's operations in Scandinavia and Canada, the principal risks and uncertainties of the Group have been reassessed. These are set out in note 6 Risk and capital management¹.

Further detail on how the Company manages its principal risks and uncertainties is set out in the risk management report on pages 4 to 7.

Our strategy

Our ambition is to build on RSA's strengths to deliver a consistently outperforming underwriting result. We will achieve this by leveraging our strong UK domestic Commercial Lines and Specialty businesses, growing our direct channels in Personal Lines, and continuing to improve our productivity. We are therefore focused on simplifying our business and distribution channels, investing in our technical and digital capabilities, and building a customer-driven culture that values high performance and develops talent.

We will build the customer proposition and grow our European businesses through alignment with Intact's Specialty businesses in North America and the London Market, while continuing to focus on the underwriting excellence which has enabled the performance improvement of recent years.

Our customers

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

Our customer policy sets out standards for the business to help ensure that we treat all customers fairly, that products and service continue to meet their needs, and that we monitor customer outcomes to understand our performance. Further information on how we support and engage with our customers is contained in the Section 172 statement on pages 8 to 10.

We define customer retention as a measure of the amount of business that is renewed with us each year. Strong customer satisfaction translates to high retention levels and improved underwriting results. By ensuring that customers are at the heart of everything we do, we can optimise business performance. We target improving retention over time.

Future outlook

We evolve our products and services to ensure that we continue to meet customers' changing needs.

We continue to improve the performance and resilience of the business. An ongoing focus is to further simplify what we do and drive and further invest in areas of strength.

Markets remain competitive but the Group has the right foundation to target sustainable growth in certain product lines and customer types. The continuation of our programme of business simplification aligned to customer-driven values will assist this growth further.

Events after the reporting period

The Group has limited direct underwriting or investment exposure to the war between Ukraine and Russia and is vigilant in its adherence to sanctions. The situation will continue to be closely monitored for any indirect impacts that could emerge.

On 7 March 2022 the Company gave notice of redemption to the holders of the two floating rate Restricted Tier 1 notes. The Tier 1 notes will be redeemed at their principal amount together with accrued and unpaid interest up to (but excluding) the first call date on 27 March 2022.

1. Refer to Financial Statements.

2. The underwriting result is an Alternative Performance Measure (APM). Refer to Further information – Jargon buster and Alternative Performance Measures.

Managing risk to deliver for our customers and achieve our goals

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

The Group's operating plan provides a platform for ensuring the business remains aligned with its strategic goals, including strong delivery for our customers and sustainable performance with a robust capital base. The Risk Function takes an active role in challenging the business on its development of our plans and delivery against our objectives and those of our customers.

Approach to managing risk and our appetite in 2021

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

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

Risk culture – culture of accountability and openness

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

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

Risk management and governance approach during Covid-19

Maintaining effective risk management and a robust internal control environment is essential in times of organisational stress as it helps protect the organisation from harm. Our values continue to drive decision-making in challenging times, putting our people and customer needs first, supported by our operational resilience capabilities. Uncertainty from Covid-19 conditions continues to impact every organisation and the economic environment; however, our success in embedding remote and hybrid working has allowed us to continue to serve our customers well. Joining Intact and the associated organisational change brought with it additional operational risks. These risks were mitigated through frequent and open communication with our people, strong and considered leadership, and appropriate monitoring. Now some months on, these risks have been, and continue to be, managed. In terms of financial resilience our capital position has been strengthened during the takeover by Intact providing additional capital and improving the solvency coverage, as well as increasing the quality of capital held.

Emerging risk – monitoring future threats

Emerged risk

Cyber risk

Cyber threats arise on a frequent basis; however, there is an increasing risk of hostile states and organised crime to engineer severe attacks.

Terrorism

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

Inflation

Supply chain issues, the impact of Brexit and the effects of the pandemic increase the uncertainty around inflation and the risks of stagflation, with implications on claims fulfilment and economic output.

Pandemic

While we appear to be through the worst of the pandemic the risk of further variants remains and there continue to be economic, social and political implications from the direct and indirect consequences.

Regulatory activity

The pace of regulatory change shows no sign of slowing, with multiple initiatives that are significant in nature and complex to implement. The current regulatory change agenda includes a new Consumer Duty, Solvency II developments, diversity and inclusion, climate change, operational resilience and continuing efforts to embed changes arising from the FCA's General Insurance Pricing Practices reforms.

Near-term risk

Financial market uncertainty

Volatile capital markets negatively impact on the value of assets and potentially increase capital requirements for market/credit risk, and with a continued low interest rate environment.

Global socio-political uncertainty

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

Persistent or more extreme weather patterns

There is potential for further deterioration of more extreme weather patterns from a warming planet.

Climate change transition risk

Transition risk is already underway, and the economic effects are starting to materialise. There remains some uncertainty about how disorganised transition will be and the extent to which it will have negative economic effects as actions are taken to deliver on net zero targets.

Geopolitical tensions

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

Medium-term risk

Longevity risk

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

Autonomous machines

Autonomous machines are likely to change insurance needs and could affect both the frequency and severity of losses.

Transition risk

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

Solar storms

Solar flares could potentially impact on electronics and the electricity supply, having a broad economic impact and resulting in a wider range of insurance claims.

Long-term risk

Climate change accelerates

Climate change is fully on the agenda and remains a key emerging risk for insurers. While transition risk is nearer term, the physical risks will take longer to fully materialise and come with even greater uncertainty. We are already experiencing some volatility in global weather patterns that are being reflected in weather assumptions but there are substantial risks that these physical effects could accelerate.

Risk management approach

Risk management system

The Board sets business strategy*

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

Board sets risk strategy and appetite

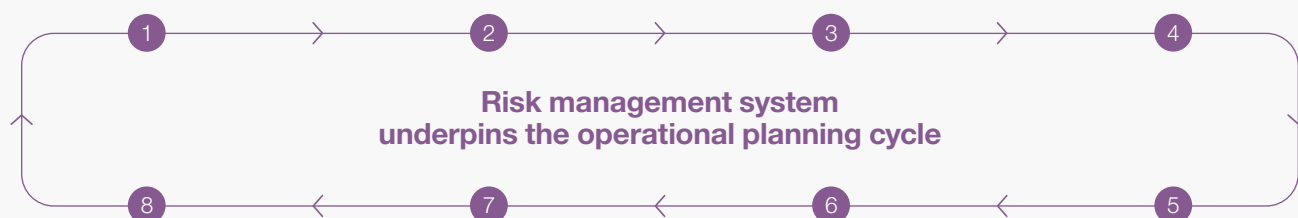
Risk strategy defines the approach to managing principal risks and creates the overarching principles for setting the risk appetite limits and indicators.

Policies set a framework for operating within appetite

Our extensive policy suite sets out the required business processes and controls to deliver the operational plan within appetite. Robust control testing and monitoring is used to identify risks out of appetite.

Monitor appetite and action tracking

The business leaders manage their own risks and define actions, where out of appetite, with oversight provided by UK&I Risk and Control Committees and escalation to the Board via the Risk Committee.



Own Risk and Solvency Assessment (ORSA) reported to Board

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

Model outputs used in ORSA

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

Model outputs checked and used in business decisions

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

Risk assessment and update internal model

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

* Following the takeover of RSA by IFC a review of strategy for the new perimeter and role of RSA as a part of IFC has commenced and continues. Those aspects decided upon by the time of setting the 2022-24 operational plan are fully incorporated. Those areas still subject to review will become an adjustment or overlay at the appropriate time.

Key risks and mitigants

Key risks and exposures

Catastrophe risk

Arises from the risk of large natural disasters, with our main exposure being to North European windstorms and UK flood.

Reserving risk

This is the risk that the Group's estimate of future claims is insufficient, such that gross losses could be higher than projected or reinsurance does not respond as anticipated. The size of future claims payments is uncertain, with the main sources being long-tail lines of business, Covid-19 business interruption claims (due to interpretation of policy wordings still being debated in high profile legal cases), as well as underlying economic inflation. The timing of future claims payments is another key uncertainty especially for our long-tail liabilities arising from motor injury, liability and Profin.

Underwriting and claims risk

This is the risk that underwritten business is not in line with appetite or is less profitable than planned due to insufficient pricing and setting of claims case reserves. Key exposures arise from large portfolios where claims trends are slow to emerge, such as UK Commercial and Marine.

Market and credit

This is the risk to our insurance funds arising from movements in macroeconomic variables, including widening credit spreads, fluctuating bond yields and, to a lesser extent, currency fluctuations.

Pension risk

Our defined benefit pension schemes are exposed to longevity and market risks. Some of these, for example credit spread movements, are partly hedged through offsetting exposures in the Insurance Investment Fund.

Operational risk

This risk relates those resulting from human factors, external events, regulatory matters and inadequate or failed internal processes and systems, including cyber risks. Operational risks are inherent in the Group's operations and are typical of any large enterprise, and have the potential to impact on our customers.

Key mitigants and controls

- Our reinsurance programme significantly reduces our exposure to catastrophe risks, with historical losses being well covered by our programme. The programme is designed to cover at least 1-in-200-year events and is stress-tested for climate change scenarios.
- Reserves are reviewed and challenged at the UK&I Reserving Committee meeting which is attended by the Chief Actuary, Chief Risk Officer, Chief Underwriting Officer, Chief Financial Officer and Chief Executive Officer.
- During 2021, we have carried out detailed monitoring of claims, regulatory, legal and reinsurance developments, both within RSA and the industry, to help form assessments and make appropriate allowance for the impact on our experience of potential operational, economic or other disruptions arising from Covid-19 and Brexit.
- The Adverse Development Cover mitigates the risk of adverse development in prior year releases.
- The Group's reserve assurance programme and independent external reserve reviews have independently verified more than 90% of the UK&I's net Actuarial Indication during the past three years.
- Claims case reserves are set based on best estimate and reviewed at quarterly case Reserving Committee meetings.
- Management consider and seek legal advice on the implications of all open legal cases and judgements across the industry relating to interpretation of policy wordings in Covid-19 claims. It is expected that any adverse change would be protected by reinsurance cover.
- Controlled through well-defined risk appetite statements (including climate change factors) which are rigorously monitored at quarterly portfolio reviews, with remediation action taken where deemed necessary.
- Risks to inflation and supply chain delays are being monitored and we are ready to respond.
- Extensive control validation and assurance activities are performed over underwriting pricing and claims.
- 2020 Covid-19 actions have been effective and in 2021 we focused on supporting customers' claims in line with regulatory expectations and relevant court rulings.
- RSA adopts a prudential investment strategy favouring high-quality fixed income bonds, a modest allocation to equities and selected less liquid assets subject to strong internal and external governance.
- RSA ensures assets are closely duration and currency matched with insurance liabilities to hedge volatility.
- Investment positions are regularly monitored to ensure limits remain within quantitative and qualitative appetite (including ESG factors).
- Asset Managers position assets to align to the Low Carbon Position Statement.
- Funding assets are well matched to liabilities in the pension schemes, including the use of swap arrangements.
- A long-term funding plan is in place to further de-risk the schemes.
- Possible market impacts are examined and well understood with a specific focus on Pension risk.
- Operational risk and resilience processes and procedures are in place, including incident management.
- Operational resilience mechanisms continue to be important in 2021 given the ongoing pandemic. Through this time the customer focus and governance has continued to be strong, and resilience plans and procedures have ensured service continuity.
- Control effectiveness is monitored through formal Validation and Assurance.
- UK Customer Committee oversees decisions relating to good customer outcomes with a particular focus in 2021 on the implementation of pricing practices rules.
- IT and data risks remain a key focus, especially cyber threat, and we have made some significant progress over the year, while migrating some services onto the Cloud.

Section 172(1) Companies Act 2006 statement

The Board has balanced the views and interests of our stakeholders, alongside the need to promote the long-term success of the Company.

The Board has acted in a way that it considers, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole. This section sets out how the Board, in doing so, has had regard to the matters set out in Section 172 of the Companies Act 2006.

A balanced and collaborative approach to stakeholder engagement

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

Throughout 2021, the Directors and senior management engaged with key stakeholder groups across the business. These engagements were adapted as internal and external demands continued to impact the business, in particular, completion of the Acquisition and the ongoing Covid-19 restrictions on operations and travel. The composition of the Board changed significantly during 2021 to reflect the change to the Company's scope and jurisdiction under its new ownership. The Board remained committed to maintaining a range of direct and indirect engagement with its stakeholders and has approved the stakeholder engagement plan for 2022.

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

Customers

Why the Board engages

Good business starts with our customers and we strive to keep them at the heart of what we do. The Board works hard to increase its understanding of our customers' risks so that we continue to provide tailored products and services that meet their diverse and evolving needs. Customer satisfaction and customer retention are critical to the long-term sustainable prospects of the Company.

How the Board engages

The Board receives regular updates from senior management on customer and conduct matters and monitors and tracks KPIs on customer outcomes. In addition, the Board receives management information and updates from the UK Customer Committee, which ensures good customer outcomes are central to our decision-making. These updates keep the Board informed on customer priorities and key risks to the consistent delivery of good customer outcomes, and future areas of focus. They help to ensure that the Company has promoted and secured positive outcomes for its customers.

The Board ensured that it was well informed on how management was ensuring a customer centric and robust conduct culture during challenging and difficult times due to the Covid-19 pandemic.

During the year, the Board received deep-dive updates from both the Managing Director of the Commercial Lines business and the Managing Director of the Personal Lines business. The Commercial Lines update included a focus on broker feedback and customer expectations, including the increasing importance of retention linked to price, service and value. The presentation on the Personal Lines business included customer and market insight and how the business is responding to customer expectations around customer service and digital offerings. The Board also received an update on RSA's response to the FCA's new rules on Pricing Practices and Product Governance, which will bring broad industry focus on customer outcomes. These business reviews have been a forum for the Board and management to discuss long-term strategic goals on customer matters.

Long-term implications

Customer satisfaction and retention are critical to the long-term sustainable prospects of RSA. The Board has engaged with and responded to the needs of customers with this in mind. During the second half of 2021, the Board was engaged in detailed strategic analysis and planning, and considering how any change in strategic focus will impact and benefit customers.

Workforce

Why the Board engages

The Board values meaningful engagement with our people and recognises that a healthy, transparent and open culture and empowered individuals support our strategic objectives of excellent customer service and a high-performing workforce. We define our workforce as our employees, individuals on a contract for service and agency workers across the UK&I business.

The Board recognises the central role that our workforce plays in sustaining our positive culture and diverse capabilities as we continue to progress under new ownership. Much of the engagement of the Board in the first half of the year was focused on guiding our people through this transition. Following completion of the acquisition, the Board has supported management's communication strategy to ensure employees are engaged and informed on changes and opportunities for the business and its people as part of Intact.

How the Board engages

We know how important culture and shared values are to the success of an organisation and of setting the tone from the top. New Board members are inducted on the organisational context, including briefings with the Director of HR. Culture is a Board level matter and during the year the Board received and supported a number of updates on people strategy and in 2022 approved the adoption of Intact's purpose and values.

RSA's organisational structure changed during 2021 following the Acquisition and to support the future strategic ambitions of the business. This has included some changes to senior leadership in the region. The Board reflected on the actions and precautions being taken to deliver these organisational changes and has been satisfied that management is appropriately considering and protecting the well-being of our people. The Board continues to engage with the Executive Team and to support them in providing reassurance and clear communications to employees.

The Board has considered reports and updates from senior management with feedback from employees gained through various methods, including management group meetings with leaders across the business and HR-led people sessions, employee surveys and virtual 'coffee chat' discussion groups. The Board also reviewed updates on progress to achieve diversity and inclusion ambitions; for example, enhanced UK family policies proposed by management which were well received by employees.

Direct engagement with the workforce was challenging during 2021 due to ongoing changes in Covid-19-related restrictions. That said, Executive Directors have taken opportunities to engage by virtual means, such as a roundtable discussion on the topic of career progression between non-executive Directors and female colleagues on International Women's Day, and town halls and Q&A sessions with colleagues. The Board has been engaged in key decisions to support the workforce during a period of heightened change, including hybrid (a mix of home and office) working arrangements and an accelerated pay review for UK employees.

Long-term implications

The Board understands that responding to our workforce's needs and removing any barriers to enablement in evolving working environments are key to the long-term success of RSA. The Board has responded to the short and medium-term impact of Covid-19 on the workforce and organisational structural changes related to the change to the Company's ownership.

Regulators and rating agencies

Why the Board engages

RSA is regulated by the PRA and the FCA and committed to working with its regulators in an open, cooperative and transparent manner. We seek to ensure a strong regulatory compliance culture throughout RSA in order to pre-empt and, where necessary, resolve regulatory issues and to avoid or minimise business impact and the risk of customer harm. The Board continues to have constructive engagement with our regulators, ensuring that they gain a comprehensive view of the Group's financial soundness, strategic and operational priorities, governance and culture, and that we understand the issues of interest to them.

The Board regularly engages with RSA's regulators across all the regions that it operates. Due to the significance of the Acquisition, RSA's regulators were informed of the arrangements and terms of the transaction. The regulatory capital requirements of RSA was a central topic of discussion with relevant regulators as well as its culture and governance, solvency, liquidity and treating customers fairly. The PRA and the FCA attended Board meetings in 2021 to discuss regulatory priorities.

How the Board responds

We believe that open and regular dialogue promotes transparency between the Group and its regulators and ensures that we are in a position to reflect the views of our regulators when setting strategy. The outcomes of our engagement with our regulators influence RSA's priorities and focus for the year are set out in the regulatory compliance plan, which is considered and approved by the Governance, Conduct & Remuneration ('GCR') Committee.

Long-term implications

The Board is committed to engagement with the Company's regulators in order to ensure that we maintain positive relationships and take account of their views and interests.

Environmental, Social and Governance issues

Why the Board engages

The Board is committed to high standards in ESG matters. This is manifested by our contribution to communities and how we work to mitigate the impact of our business on the environment, in particular how we work with business partners, suppliers and customers in relation to our shared response to the challenges posed by climate change.

How the Board responds

The Board has oversight of RSA's policies on climate change and is engaged on how the business is supporting the transitioning to a low carbon economy. Further information on the Board's oversight and engagement on ESG matters and its oversight of non-financial KPIs is set out in the ESG Report and Environmental Risk Management Report on pages 11 to 16.

Long-term implications

The Board recognises that stakeholders have an interest in understanding how our business is responding to issues that concern wider society. The Board has been particularly engaged in understanding both the near and long-term risks associated with climate change and in preparing our business to respond to the associated physical, regulatory, social and economic impacts.

Section 172(1) Companies Act 2006 statement continued

Shareholders

The Company's ultimate owner is Intact Financial Corporation, a public company listed on the Toronto Stock Exchange. During 2022, RSA adopted the purpose and values of Intact and is aligned with Intact's strategic objectives to deliver outperformance and value for its shareholders.

The Company's Board has an equal balance of independent and non-independent Directors. There are three shareholder-nominated Directors on the Board; which supports the Board's understanding and integration with Intact.

Further detail on the composition of the Board is included in the Governance Report on pages 21 and 22.

Suppliers

Our suppliers are critical to our business and the long-term success of RSA. We are committed to the principles of the Prompt Payment code and aim to treat suppliers fairly and consistently – for example, by offering equivalent payment terms between suppliers, in order to build strong and lasting relationships. We have structured supplier management practices in place across all regions and are investing in further tools and processes to manage risk in the supply chain and ensure that our supplier relationships are managed in a cooperative and proportionate manner. Further detail on how we engaged with our suppliers during the year is included on page 12 of the ESG Report.

Pension schemes

The Board continues to view the pension trustees as a key stakeholder group. In 2021, the UK pension trustees were provided with quarterly updates on RSA performance and offered meetings with RSA and Intact senior executives. RSA also continued to engage with and support the development of investment strategy in the pension schemes (noting that this is ultimately controlled by the trustees).

ESG

Building a resilient future

As people and communities look to the future, our focus on helping them to navigate change and build resilience has never been more important

We are committed to integrating key environmental and social issues with our business practices.

The information contained in the Customer section of the Business Review on page 3, the ESG section and the People section in the Directors' report on pages 23 to 25 and our principal risks on page 7 form the non-financial information statement.



We believe that strengthening relationships with colleagues, customers, suppliers and communities through addressing issues of mutual concern helps to create value that is sustainable and ultimately benefits both RSA and the society in which we operate.

The pandemic has surfaced social and environmental issues that were already important to our business, but have been given greater prominence as a result of the challenges faced by our employees, customers and communities during this period. Our approach to ESG, articulated in our Confident Futures strategy in 2018, is one way RSA demonstrates the integrated approach we take to these important issues and the contribution we make to realising the UN Sustainable Development Goals that are most relevant to our business.

In 2022, we will review how this strategy should evolve to benefit from the priorities, skills and ambitions of Intact.

Environment

The insurance industry is critical to helping people and communities to both understand and manage the impacts of climate change, particularly more frequent and severe weather events, and the transition to a low carbon economy.

We engage with the rapidly evolving approach to climate change by business and government through both our own direct action and our active engagement with sector groups such as ClimateWise, the United Nations Principles for Sustainable Insurance, and the Climate Financial Risk Forum. Alongside our peers, these groups provide RSA with the opportunity to develop and share best practice on reporting, new ways to integrate ESG concerns with our strategic decision-making, and to innovate new products that will better serve the community.

Our Climate Change Action Plan, first developed in 2019 and aligned with the PRA Supervisory Statement SS3/19 is a central component in our approach to embedding climate change in our risk framework. As a result of the plan we have put in place measures to manage climate-related financial risks, with a number of actions now forming part of our BAU activity or being integrated with Intact's new climate change strategy, which will be disclosed in 2022.

In 2021, we completed detailed scenario analysis to determine the material financial impact of risks to our business from changes in the climate and submitted this to our regulator, the PRA, as part of the Climate Biennial Exploratory Scenario (CBES). The process of completing our CBES submission has also helped us to both validate and update our Climate Change Action Plan to ensure we are taking full account of the risks and acting to mitigate them through an integrated response. More on our approach to managing the risks associated with climate change can be found in our TCFD disclosure on pages 14 to 16.

We maintained our Climate Change and Low Carbon Policy position, first implemented in 2020, as a key tool to demonstrate our commitment to responsible investment and underwriting. The policy is a framework for assessing the carbon intensity of our Scope 3 emissions and a baseline for long-term ambitions towards our commitment to achieving Net-Zero by 2050. The policy will be reviewed in 2022 to assess whether there are opportunities to increase its impact and efficiency in supporting low carbon transition and ensure it continues to reflect the changing shape of our business as part of Intact.

ESG continued

Carbon emissions from our operations have reduced this year by 13%, in part as a by-product of the changing work patterns caused by the pandemic. More details are available on pages 23 and 24 in the Streamlined Energy and Carbon Reporting (SECR) section. We have also maintained our leadership position in the Carbon Disclosure Project (CDP) assessment with an A- score.

Across the UK&I region, 55% of electricity for our premises is from renewable sources. In the UK this figure is 66%. Scope 1, 2 and 3 emissions data can be found on page 24 as part of our SECR report. Emissions from business travel were once again down compared to pre-pandemic levels, with a 65% reduction in carbon emissions from business travel on the previous year.

Our employees are increasingly interested to understand how we can help them to make more sustainable choices. We have installed chargers for electric vehicles at our Chelmsford offices with installations planned for our offices in Horsham and Liverpool in early 2022. In 2021, chargers were installed in our Bristol office, with Birmingham and Peterborough to follow in 2022. In addition, our Executive Team agreed in 2021 that from March 2022 our Essential Car User policy will change so that all new vehicles supplied by RSA to employees will be low emission (<50g/km), either Plug in Hybrid or electric vehicle.

Communities

Our community programme continues to harness the generosity and enthusiasm of employees to support some of the most vulnerable in society. Food distribution, education and learning, mental health services and projects to combat loneliness are among those having received more than £1.47 million in cash, the value of volunteering time and in-kind support. £0.87m of this total community contribution was in the form of charitable donations from RSA.

We are particularly committed to leveraging our expertise and investment to improve risk education in schools, in the workplace and in the home through a behaviour change programme. In the UK this includes a partnership with the Royal Society for the Prevention of Accidents (RoSPA), targeted at over 65s to reduce the risk of falls in the home.

The pandemic created challenges in delivering traditional areas of our community programme; for example through in-person employee volunteering. Our focus turned to alternative programmes including the RSA Climate and Risk Education Grant Programme, which utilised funds from the UK Dividend Forfeiture Scheme to donate to organisations tackling climate change and reducing carbon emissions or supporting risk education and behaviour change. In total we contributed £295k funds to 43 causes.

Employee fundraising has increased 5% despite the challenges of delivering fundraising activities. Employees raised £66k for charitable causes, supplemented with an additional £17k through our matched funding programme.

In 2021, we also achieved the Charities Aid Foundation Silver Payroll Giving Mark for our GAYE scheme. 262 employees are signed up to this benefit in which RSA offers matched donations of up to £10/month, with participants making an average donation of £28/month. RSA donated a further £39,412 in match funding.

As we emerge from the pandemic, we believe 2022 offers an exciting opportunity to relaunch, reinvigorate and emphasise the importance of community engagement.

Suppliers

Our suppliers are critical to the service we provide to our customers and make an important contribution to our business. In 2021, we continued to engage with our suppliers through structured supplier management practices across all regions, establishing new or enhanced standards and sharing best practice. We are investing in new tools and processes to manage risk in the supply chain and ensure that our supplier relationships are managed in a cooperative and proportionate manner.

Our Claims Supply Chain team has continued to work closely with suppliers during the emergence from Covid-19 lockdowns to ensure that they could continue to offer services safely and in an environment where many people were isolating. We have monitored the ongoing impact of the pandemic on service levels and supplier confidence through surveys and other engagement tools. We improved our payment terms for motor repair and provided increased levels of support to repairers in recognition of both increased labour rates and energy costs affecting the sector.

RSA is committed to the principles of the Prompt Payment Code, which recognises the key role that small and medium sized enterprises play in the local economy and the need to ensure costs are covered in a timely fashion. We aim to treat suppliers fairly and consistently – for example, by offering equivalent payment terms between suppliers, in order to build strong and lasting relationships.

Human rights

As a signatory to the UN Global Compact, RSA is committed to aligning its operations with the ten universal principles that together cover our approach to environment, human rights, labour and anti-corruption.

Our Human Rights Policy is designed to operationalise the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, and the UN Guiding Principles on Business and Human Rights. It sets the standard we expect for our employment practices, the actions of our supply chain, and principles we apply to our investment and underwriting portfolios.

In 2021, we continued a programme of due diligence that monitors the approach of our supply chain to human rights, tracks performance, and engages with suppliers to improve transparency where necessary. Supplier Relationship Managers have completed our e-learning module, which addresses the potential risks of modern slavery and human trafficking in the supply chain, raises awareness of this issue among our people and the circumstances under which they should seek specialist advice.

Our procurement team considers human rights when reviewing supplier tenders, as well as existing supplier contracts. Our aim is to raise awareness of issues, ensure that procedures are in place to prevent breaches, and conduct appropriate due diligence. We are subscribers to the Financial Services Qualification System (FSQS) operated by Hellios – a community of financial institutions collaborating to agree a single standard for managing supplier compliance, including with ESG policy areas such as modern slavery and environmental impact.

All relevant policies are reviewed on an annual basis, including our Modern Slavery and Human Trafficking Statement, which was published in March 2021 and is linked to a number of policies that provide confidence we are helping to raise awareness of modern slavery among our people and suppliers. This includes policy standards outlining how we recruit, manage and support our people in a working environment that promotes diversity, respect, integrity, safety and wellbeing; our Third Party Contracts & Outsourcing policy which exists to ensure that appropriate assessments of risks associated with services are undertaken to meet our human rights commitments; and our Speaking-up & Whistleblowing Policy, which encourages our people to raise concerns, without fear of retaliation, about how we do business or operate as an employer.

Our overarching approach to ensuring we are respecting and helping to fulfil human rights is found in our Human Rights Policy. Further information on our approach to addressing modern slavery can be found in our Modern Slavery and Human Trafficking Statement: www.rsagroup.com

Anti-bribery and corruption

We do not tolerate bribery and corruption anywhere in our business. Our Anti-Bribery and Corruption Policy and Conflicts of Interest, Gifts and Hospitality Policy apply across our business. Directors, people leaders and others with supervisory responsibility must ensure that employees, contractors, business partners and suppliers are aware of these policies and comply with them.

The policies establish detailed guidance on facilitation payments, gifts and hospitality and relationships with third parties, as well as the systems and controls to ensure effective implementation. All employees, contractors, business partners and suppliers are expected to comply with applicable laws of the UK and countries in which we conduct business, as well as with our Broker Remuneration Policy and Third-Party Contracts Policy, which set out requirements for payments to brokers and procurement activity.

In 2021, all colleagues were enrolled in a mandatory e-learning training module covering anti-bribery and corruption. The training is an annual assignment to all staff and is translated into a number of different languages for our colleagues in different parts of the world. Employees are encouraged to identify and escalate concerns to management or through our confidential third-party whistleblowing hotline in line with our Speaking-up & Whistleblowing Policy. Operating countries complete risk assessments that are reviewed and updated annually, supported by a central team to enable continuous improvement to controls. The Audit Committee periodically reviews Internal Audit findings in relation to our Anti-Bribery and Corruption Policy.

Environmental risk management

Task Force on Climate-related Financial Disclosures (TCFD)

Reporting in line with the recommendations of the TCFD helps us to manage the impacts of climate change through our strategy and approach to risk management.

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

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

Governance

The Board is responsible for considering climate-related issues in business plans, our exposure to climate-related risks together with opportunities for RSA to achieve energy efficiency and climate mitigation measures in its own business and supply chain, and support customers in the transition to a low-carbon economy. The Board via the Risk Committee receives updates on the implementation of RSA's Climate Change Action Plan, together with our Climate Change and Low Carbon Policy position, and consider how climate change risks and opportunities are addressed through the operational plan.

Responsibility for climate change is integrated into the roles and responsibilities of senior managers across several key functions, including Finance, Underwriting, Investments and Risk. Our Director of Strategy has overall responsibility for the RSA UK&I's Environmental Policy and shares responsibility for delivery of our Climate Change Action Plan and the risks it seeks to address with our Chief Risk Officer and our Director of Underwriting and Pricing.

Our Director of Strategy chairs our ESG Committee, which regularly updates our senior managers and the Board on activities and progress against targets. Within each part of the RSA UK&I region, country-level senior management is responsible for ensuring that the business strategy is executed and that our business plans take into consideration the operating environment and material risks and associated policies, including in relation to climate change.

Our ESG Committee and our UK&I Corporate Responsibility Committee jointly oversee the relevant components of our ESG strategy, including our strategic focus on responsible investment and underwriting and the sustainability of our operations. This encompasses actions to respond to climate risks and opportunities, including minimising the impact of our direct operations by setting targets and monitoring progress, and supporting the transition to a low-carbon economy. For more information on our approach to ESG, see pages 11 to 13.

In 2022, we intend to align the RSA approach to climate change strategy with Intact. We will be reviewing our approach to governance of these matters to ensure they are fit for purpose.

Strategy

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

- Corporate strategy – including integrating actions that respond to climate change into our five-year roadmap to ensure that our business evolves in a way that is consistent with our responsibilities under ESG.
- Underwriting strategy and portfolio management – particularly in relation to physical risks and reinsurance decisions.
- Reducing our own operational environmental impacts, including within our supply chain.
- Investment decisions.
- Risk management governance, policies, processes and systems.

Managing physical risk

RSA's risk and operational teams regularly review the emerging risk landscape – analysing Company-wide data, exposure and trends, and external research to identify a management approach to climate-related risks.

Climate risk is well managed through our operational policies and standards:

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

Reinsurance is our primary means of reducing the financial impacts of climate-related losses associated with the physical risks of changing weather patterns. Our catastrophe reinsurance covers flood, windstorms, hurricanes, wildfires and other severe weather events, with special provisions providing additional protection for prolonged or greater frequency events.

Our reinsurance programme is designed to cover at least 1-in-200-year events and is optimised to mitigate the impact of extreme weather. We have tested the value and effectiveness of our reinsurance programme against a scenario of rapidly increasing severe weather, which has informed the Board's decision on our forward-looking reinsurance strategy.

Our operational planning processes also consider changing weather patterns. Using up-to-date catastrophe models and building identifiable trends into our weather planning, technical pricing and exposure management are key parts of our underwriting guidance.

Opportunities to support low-carbon transition

Our Climate Change and Low Carbon Policy position sets out the important role we can play in helping society transition to a low-carbon economy. We seek to ensure that our business activities are consistent with our commitment to support the development of renewable energy and other lower-carbon technologies through our products and services while limiting capacity available to and investments in certain fossil fuels.

This policy, which came into effect in January 2020, formalises our position on investments and underwriting of carbon-intensive sectors. We hold positions in renewable energy insurance across our portfolio and our Commercial Lines business includes a team of specialist underwriters and risk engineers with the skills, technical knowledge and industry experience to handle construction and operation of renewable energy projects around the world. As a result of the acquisition by Intact and new opportunities and challenges associated with the changing shape of our business, our Climate Change and Low Carbon Policy will be reviewed to coincide with the development of our new climate change strategy.

We have an opportunity to influence our customers and suppliers to improve their resilience to climate change through risk management tools and advice. In 2021, we worked with Intact to develop a new climate change strategy for the Group, one which is designed to foster positive approaches to addressing climate change across the value chain, including ultimately with customers, suppliers and in the wider community.

Scenario analysis

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

Global catastrophe risk is a material part of RSA's risk profile, and extensive reinsurance arrangements are in place to manage and mitigate this risk. The results of ongoing scenario analysis highlight the importance of reinsurance protection to mitigate extreme weather events that occur over an extended period of time. Increased severity of weather events is likely to be well covered by our existing catastrophe reinsurance cover. The outcome of any scenario analysis is considered as part of RSA's short- and long-term reinsurance strategy.

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

During 2021, we were one of only 18 firms to participate in the Bank of England's CBES exercise, which explored the financial risks posed by climate change and tested the resilience of the financial services sector. Subsequent management actions to mitigate the risk associated with CBES climate pathways are in line with the existing RSA Climate Change Action Plan, which was set in 2019. However, we have proposed that the remit of the Action Plan be expanded to capture additional actions arising from the CBES exercise on an ongoing basis.

Risk management

Our enterprise-wide approach to risk management (covered in more detail on pages 4 to 7) ensures that the right processes and procedures are in place to identify, understand and monitor the risks associated with a changing climate across our operations. Climate risks feature on our emerging risk profile and are built into our risk control environment for assets and underwriting.

Policies are reviewed to ensure that climate change is integrated into relevant requirements and controls. We have also integrated climate change into our UK&I Risk Appetite Statement and ORSA and will be refreshing this in line with the approach taken by Intact.

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

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

Environmental risk management continued

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

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

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

Targets and metrics

We recognise the importance of understanding, measuring and managing the impact of our own operations. Our overall commitment is to achieve Net-Zero emissions by 2050 and halve operational emissions by 2030. These targets are part of an ambitious climate change strategy developed by Intact, which will be disclosed in 2022.

In 2020, RSA achieved 'Leadership' level in CDP (formerly the Carbon Disclosure Project) increasing our score from B to A-. We retained a score of A- in 2021. This reflects the strategic approach we have adopted to managing climate-related issues.

In 2021, the majority of RSA offices remained largely unoccupied until the gradual return of a form of hybrid working in Q3. We observed a reduction of 13% in our total carbon emissions and a 65% reduction associated with business travel. More information on how we measure the environmental impact of our own operations, including a breakdown of Scope 1, 2 and 3 emissions can be found in the Streamlined Energy and Carbon Reporting section on pages 23 to 24.

We are committed to using the lessons from the pandemic to inform our approach to optimising the efficiency of corporate real estate and virtual working opportunities as we progress our ambition to continually reduce emissions from our operations.

Metrics	2021	2020	2019
Weather and subsidence related losses	£114m	£85m	£61m
Weather and subsidence loss ratio	4.3%	3.2%	2.2%
Energy portfolio GWP in renewable energy	60%	37%	57%
	4,977 tonnes CO₂e	5,737 tonnes CO ₂ e	9,997 tonnes CO ₂ e
Total carbon emissions (Scopes 1, 2 and 3)			

Notes:

All figures have been restated to account for the disposal of our Scandinavian businesses following the acquisition by Intact. The Canada portfolio and footprint will now be accounted for in the global figures for Intact.

Weather-related losses and weather-loss ratio figures represent ongoing continued business, excluding those areas which have been exited. These figures also exclude the impact of internal reinsurance between the UK&I business and the legacy RSA Group head office. This will no longer be in place from 2022 onwards.

For notes relating to Scope 1, 2 and 3 emissions please see the section on Streamlined Energy and Carbon Reporting on page 24.



Charlotte Jones
Chief Financial Officer

11 March 2022

Directors and Executive Officers¹

Non-Executive Directors

Mark Hodges
Chair
Appointed 1 June 2021

Alastair Barbour

Sally Bridgeland
Appointed 1 June 2021

Charles Brindamour
(Shareholder-nominated)
Appointed 1 June 2021

Clare Bousfield

Claude Dussault
(Shareholder-nominated)
Appointed 1 June 2021

Robert Leary
(Shareholder-nominated)
Appointed 1 June 2021

Andy Parsons
Appointed 1 June 2021

Executive Directors

Ken Norgrove
Chief Executive Officer²
Appointed 10 January 2022

Charlotte Jones³
Chief Finance Officer

General Counsel & Secretary

Jonathan Cope
Appointed 1 June 2021

Executive Committee (UK&I)

Ken Norgrove
Chief Executive Officer²
Appointed 10 February 2022

Charlotte Jones³
Chief Financial Officer

Ken Anderson⁴
Chief Financial Officer
Appointed 1 January 2022

Karen Caddick
HR Director

Jonathan Cope
General Counsel &
Company Secretary

Paul Dilley
Chief Underwriting Officer

Karl Helgesen
Chief Claims Officer

Dave Howell
Chief Auditor

Oliver Holden
Chief Information Officer
Appointed 21 February 2022

Louisa Leonard
Chief Operating Officer

Kay Martin
Managing Director,
Personal Lines

Lee Mooney
Managing Director,
Commercial Lines
Appointed 1 December 2021

Andrew Podd
Chief Risk Officer
Appointed 17 May 2021

Steve Watson
Managing Director, UK
Specialty
Appointed 1 December 2021

Natalie Whitty
Strategy, Communications
& Marketing Director

Rachel Conran
CEO RSA Luxembourg

Kevin Thompson
CEO RSA Ireland

Martin Rueeg
CEO RSA Middle East

1. Changes to the Board and Executive Committee during the year are detailed on pages 21 and 22.

2. Subject to regulatory approval.

3. Charlotte Jones will leave RSA on 31 March 2022.

4. Ken Anderson has started to transition into his role and has been approved to take up his position as CFO and become an Executive Director of the Board from 1 April 2022.

Independent auditor

KPMG LLP
15 Canada Square
London
E14 5GL

Registered office

20 Fenchurch Street
London
EC3M 3AU

Company registered number

02339826

Corporate Governance

The Company became a wholly owned subsidiary of Intact on 1 June 2021.

The Company re-registered as a private limited company on 26 May 2021 and in accordance with The Companies (Miscellaneous Reporting) Regulations 2018, the Company applied the Wates Corporate Governance Principles for Large Private Companies (published by the Financial Reporting Council in December 2018 and available at www.frc.org.uk).

For the period from 1 January 2021 to 1 June 2021 the Company applied the UK Corporate Governance Code.

Principle 1: Purpose and leadership

The values of RSA and Intact are strongly aligned and in February 2022 RSA formally adopted Intact's purpose and values.

Purpose

Our purpose is to help people, business and society prosper in good times and be resilient in bad times.

Values and culture

In line with our purpose, the Company's values are (i) integrity, (ii) respect, (iii) customer-driven, (iv) excellence; and (v) generosity. Our values are designed to guide our decision-making and everything that we do. They underpin how we seek to deliver for our customers and other stakeholders. We are a people-centred business which aims for a culture of high performance, where working together as a team is valued and the business invests in its people. There are various mechanisms in place to monitor our culture, including employee surveys and cultural health assessments.

Principle 2: Board composition

Chair and CEO

The roles of Chair and Chief Executive Officer are separate and clearly defined. The independent non-executive Chair is responsible for the Board's overall effectiveness, promoting open debate and facilitating constructive discussion. The Chair is responsible for leading the Board, its overall effectiveness and for facilitating constructive debate and challenge. The CEO is responsible for implementing the strategy and decisions of the Board and its committees and leading the Executive Committee.

Size and structure

An overview of the composition of the Board has been included on pages 21 and 22.

The Board considers that it has an appropriate combination of skills, backgrounds, experience and knowledge, and that there is an effective balance of independent Directors to ensure constructive challenge.

Balance and diversity

Ensuring an appropriate balance of skills and experience has been a key focus of the Board. A thorough and detailed recruitment process was undertaken to appoint three new independent non-executive Directors as well as a new CEO and a new CFO. This process required careful consideration of the Company's strategy and the interests of its key stakeholders.

The Board has approved a Board Diversity Policy which is available to view on the RSA website www.rsagroup.com and sets the objective of a minimum of 33% of women on the Board and at least one Black, Asian or other ethnic minority Board member. The Board currently has three female Directors representing 30% of the Board. At the Executive level there are 6 females, representing 38% of the Executive Committee.

The Board recognises that its current membership does not currently meet its own aspirational targets and is committed to improving its diversity. This will be taken into account when new Directors are appointed as part of the succession planning process.

The Board keeps under regular review the Board's composition in terms of its balance of skills, experience and length of service, and industry knowledge as well as wider diversity considerations. The non-executive Directors bring a broad range of experience and skills which are highly relevant to the Company's operations and sectors in which it operates. The shareholder-nominated Directors also bring experience and knowledge of the wider Group.

Effectiveness

A governance framework has been established to ensure that independent decision-making by the Board is clear. The Board has approved a Matters Reserved for the Board and adopted a Matters Reserved for the Shareholder, as approved by the Intact Board and independent non-executive Directors have been appointed who are fully independent from Intact as well as the RSA Group.

On joining the Board, Directors are provided with a tailored induction programme. With the high volume of change to the composition of the Board and within the Executive leadership team, detailed handovers were provided by the Chair, the Committee Chairs and from the exiting Executive Directors to ensure effective handovers and continuity.

The Board sets the strategy for the business and during the year has overseen a review of strategy for the Group's new perimeter and role as part of Intact. The Board has received deep-dive presentations on both the Commercial Lines and Personal Lines business areas. It has also received updates and reports throughout the year on the regulatory change agenda and outcomes for customers.

The Board conducts an annual review of its effectiveness, including engagement of an external provider to carry out a review every three years. Due to the acquisition by Intact during 2021 and the appointment of a new Chair and non-executive Directors it was decided that an effectiveness review would not be undertaken in 2021 and that an externally-facilitated review would be completed in the second half of 2022.

Principle 3: Director responsibilities

Accountability

The Board is committed to effective governance, sound risk management and a robust control environment. The Board considers that the foundation of an effective risk management framework is the cultivation of a risk culture that promotes accountability and openness.

The Board periodically reviews and approves the Company's governance documents including a System of Governance, UK Corporate Governance Framework, Delegated Authority Framework, and a suite of governance policies. The Board has also reviewed and adopted its own constitutional documents including the Matters Reserved for the Board and Conflicts of Interest policy. These documents set out the policies and practices that govern the internal affairs of the Company.

The responsibilities of the Directors are set out in their letters of appointment and role profiles. All Directors are expected to report any potential conflicts of interest. The Conflicts of Interest register is reviewed at every Board meeting and the Directors declare any actual conflicts of interest at each Board meeting.

Board committees

In order that it can operate efficiently and give the appropriate level of attention and consideration to relevant matters, the Board delegates certain activities to the Audit Committee, the Risk Committee and the GCR Committee. The Chair and membership of each Committee is compiled of non-executive Directors. Each Committee has terms of reference that have been approved by the Board which sets out its authority and responsibilities.

Further information of the Board committees including their membership and responsibilities can be found on pages 21 and 22 of this report.

Integrity of information

The Board receives regular and timely information on all aspects of the Company's business. This includes financial performance, strategy, performance against the operational plan, internal audit, risk and compliance, customer metrics, governance, and people and culture matters. Internal processes and systems are robust and this ensures that management information is accurate and timely. Reporting to the Board includes consideration of the impact to stakeholders, where appropriate and includes an assessment of any potential risks to the success of the business. The Company's financial statements are audited by KPMG LLP on an annual basis.

Principle 4: Opportunity and risk

Opportunity

The Acquisition was the focus of the Board during the first half of 2021, with the transaction completing on 1 June 2021. The RSA Group strategy is aligned with the Intact's purpose and strategy. RSA's strategic opportunities were carefully assessed and analysed during the second half of 2021 and those aspects decided upon have been incorporated into the 3 year Operational Plan. Any changes in strategic focus will be approved by the Board in 2022, following completion of this detailed programme of work.

Risk

RSA's Risk Management System provides a framework for the management of risks by management. The Board sets the risk strategy and appetite that articulates the level of risk the Board is prepared to take in delivering its strategic objectives. The Board delegates to the Risk Committee oversight of both current and emerging risks that the business faces. The UK&I CRO is a member of the Executive Committee. The Chief Risk Officer is supported by the Risk Function, which is responsible for providing expert review and challenge of Line 1's management of risks within their own business units. There is a clear governance structure for the oversight, management and escalation of risks that fall outside of risk appetite. This structure relies on clear processes and a risk culture that promotes accountability and openness. A Governance Committee of senior leadership across the business is in place to oversee the Group's suite of policies, review of the system of governance and the UK's corporate governance framework to ensure these remain effective and appropriate for the needs of the business.

Further details on risk management are included in the Risk Management section on pages 4 to 7.

Responsibilities

The Matters Reserved for the Board states that the Board will:

- Approve the Group's overall risk appetite and high-level business strategy, including portfolio risk, claims management and financial controls, and capital management.
- Approve the Group approach to Own Risk Solvency Assessment (ORSA).
- Review the effectiveness of the Group's system of risk management and internal controls, including all material controls, and including financial, operational and compliance controls.
- When considering the Group's overall strategy and risk appetite, understand, assess and have oversight of the financial risks and impact associated with climate change that affect the Company.

The Risk Management Internal Controls Policy documents the requirements for the identification, measurement, management, monitoring and reporting of all risk types. It sets out the processes and procedures for the effective operation of the Risk Management and Internal Control systems.

The Risk Committee supports the Board to ensure that the key risks to the Group are identified, understood and effectively managed within risk appetite. The Risk Committee advises the Board on risk management matters, including solvency needs and the risk management arrangements for the Group. It monitors the Group's solvency by reviewing the outputs of the ORSA process, the Internal Model and conclusions of model validation, making recommendations to the Board on capital adequacy.

The Risk function, alongside the business functions and Conduct & Risk function facilitate the determination of the principal risks facing the business, through application of the Risk Management Framework and the Conduct Risk Framework. These are subject to debate and challenge by various management committees and the Risk Committee, as well as plans to mitigate and manage high and medium rated risks. There are clear internal communication channels on the identification of risk factors. Externally, the Group's risk profile is outlined in the Annual Report and the Solvency and Financial Condition Reports of its regulated insurance subsidiaries.

Corporate Governance continued

Principle 5: Remuneration decisions

Prior to 1 June 2021, the Group Remuneration Committee was responsible for the oversight of remuneration principles, policy and practices for RSA Insurance Group plc, as well as determining policy and setting remuneration in respect of the Chair of the Board, Executive Directors and other executives within its scope. The Group Remuneration Committee discharged its responsibilities in line with the UK Corporate Governance Code.

Since 1 June 2021, the GCR Committee has assumed these responsibilities. Membership of the GCR Committee is set out on page 22 and includes independent non-executive Directors. The GCR Committee discharges its responsibilities in line with the Wates Principles.

Policies

The GCR Committee ensures appropriate remuneration arrangements are in place through the adoption of a Remuneration Policy, which is designed to support the business strategy by appropriately rewarding performance and promoting sound and effective risk management, compliance with external regulatory requirements and alignment to long-term interests of the Company.

Setting remuneration

The remuneration principles that the Committee follows are:

- Competitiveness and cost effectiveness: remuneration packages are set at competitive levels to attract, retain and reward high calibre talent in the context of market conditions.
- Fair-minded: appropriate reward complying with principles of good risk management (including deferral and malus arrangements), inclusivity and avoiding conflicts of interest and unconscious bias. Information on our Gender Pay Gap figures and our actions in this area can be found at www.rsagroup.com. The Company has been accredited by the UK's Living Wage Foundation as a Living Wage Employer since 2016.

- Pay for performance: variable remuneration that strongly aligns employees with shareholders and/or is fully contingent on the achievement of stretching objectives which support strategic priorities and adherence to our organisational values.
- Open and transparent: remuneration components that are simple and transparent, to be effective and understood by employees and other stakeholders.

All employees are eligible to be considered for a performance-related bonus, and those in the UK and Ireland can participate in all-employee share plans. General remuneration arrangements for our employees (for example, salary increases and pension and incentive opportunities) are considered by the GCR Committee when determining total remuneration for senior executives. Consideration is also given to the reputational and behavioural risks to the Company that can result from inappropriate incentives and excessive reward and the GCR Committee can adjust based on consideration of risk factors. A significant proportion of senior-level remuneration is variable, long term and at risk, with an emphasis on share-based remuneration; bonus deferral is operated (and also where required by Solvency II), as is participation in the long-term incentive plan.

Remuneration for the RSA Chair, Executive Directors and heads of key governance functions is set in agreement with Intact. Intact's compensation framework can be found at www.intactfc.com.

PricewaterhouseCoopers (PwC) is appointed by the Committee as its independent adviser. PwC is a member of the Remuneration Consultants' Group and a signatory to its Code of Conduct. In addition, the Committee has satisfied itself that the advice it receives is objective and independent as PwC has confirmed there are no conflicts of interest arising between it, its advisers and RSA.

Principle 6: Stakeholder relationships and engagement

External impacts

The broad social impact and responsibility of the Company to its customers is core to the policies and practices of the Group. The key objective of the Group is to ensure good outcomes for customers, and this is a central principle of the Board decision-making processes.

Further information on the Group's approach to ESG matters can be found on pages 11 to 13.

Stakeholders

The Group has a number of material stakeholders, which includes its workforce, customers, partners and brokers, suppliers and regulators.

Information on the Group's stakeholder relationships and engagement can be found in the s172 statement on pages 8 to 10 of the Company's Strategic Report.

The Board and its committees

An overview of the responsibilities of the Board and its committees for the year ended 31 December 2021 is set out on pages 21 and 22.

The Board and its Committees

The Board

Since 1 June 2021, the Board has been led by Mark Hodges, the independent non-executive Chair of the Company. The Board is composed of the independent non-executive Chairman, seven non-executive Directors and two Executive Directors. The primary responsibility of the Board is to provide effective leadership to ensure it promotes the success of the Company for the benefit of all stakeholders.

Committees

The Board has established a number of committees to which it has delegated responsibility for oversight of some of its activities, as detailed below. Each committee has adopted Terms of Reference, which are reviewed annually, and any changes are approved by the Board.

Audit Committee

Members: Clare Bousfield (Chair), Robert Leary, Alastair Barbour, Andy Parsons

The Audit Committee is a committee of the Board. Membership of the Committee is composed of four non-executive Directors, one of whom acts as Chair. The Committee members have experience and competence in accounting, auditing and within the insurance sector. At the invitation of the Committee, the Chairman, Chief Executive Officer, Chief Finance Officer and representatives from functions within the business attend to advise the Committee, including from Finance, the external auditors, the Head of Internal Audit (Corporate Audit Services) and a representative from the Corporate Audit Function of Intact. The Audit Committee plays an important role in assisting the Board in its oversight and monitoring of the Company's financial statements and the robustness of RSA's systems of internal control. The Committee oversees the effectiveness and objectivity of the internal and external auditors.

The Audit Committee is responsible for:

- Monitoring the financial reporting process and making recommendations or proposals to ensure its integrity.
- Monitoring the effectiveness of internal quality control and risk management systems and internal audit.
- Monitoring the statutory audit of the financial statements.
- Reviewing and monitoring the independence of external audit.
- Reporting to the Board the outcome of the external audit and the integrity of financial reporting.

Auditor tenure

The Committee is responsible for overseeing relations with the external auditor, including the proposed external audit plan and the approval of fees and the Committee assesses the independence and effectiveness of the external auditor each year and makes a recommendation to the Board on their appointment or re-appointment. KPMG was appointed as the Company's external auditor in 2013 and has been re-appointed at each subsequent AGM. During the year, the Committee considered its position on the external audit services contract and following engagement with the Company's regulator received dispensation from the need to conduct a tender in 2022 due to the context of the Acquisition by Intact and timing of IFRS 17 implementation. The audit tender is expected to take place in 2023.

The Company has complied with the Statutory Audit Services for Large Companies Market Investigation (Mandatory Uses of Competitive Tender Process and Audit Committee Responsibilities) Order 2014 for the year ended 31 December 2021.

Risk Committee

Members: Robert Leary (Chair), Clare Bousfield, Andy Parsons, Sally Bridgeland

The Risk Committee is a committee of the Board. Membership of the Committee comprises four non-executive Directors, one of whom acts as Chair of the Committee.

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

The Risk Committee is responsible for:

- Advising the Board on risk management matters, including solvency needs.
- Overseeing the risk management arrangements of the Group.
- Monitoring the emerging and principal material risks facing the Group, ensuring appropriate arrangements are in place to identify, manage and mitigate risks effectively, and that appropriate levels of capital are held in relation to these risks.
- Recommending the Group's risk strategy and risk appetite for approval by the Board.
- Approval of the Risk Management Plan.
- Reviewing the outputs of the ORSA process, the internal model and the conclusions of model validation, making recommendations to the Board on capital adequacy and the ORSA Report.
- Reviewing the Company's investment strategy framework and investment portfolio disposition and performance to ensure these remain within risk appetite and consistent with the Company's investment strategy.
- Oversight of the Risk function.

Corporate Governance continued

Governance, Conduct & Remuneration Committee

Members: Alastair Barbour (Chair), Claude Dussault, Sally Bridgeland

The GCR Committee is a committee of the Board. Membership of the Committee comprises three non-executive Directors, one of whom acts as Chair of the Committee.

The Committee plays an important role in assisting the Board in its oversight of customer, conduct and compliance matters and has oversight of the robustness of the governance framework and internal policies for the RSA Group. The Committee is responsible for the oversight of Remuneration Policy and ensuring this promotes the long-term sustainable success of the Company. This includes reviewing and setting the remuneration of Executive Directors and the Chairman of the Board. The Remuneration Committee also reviews workforce remuneration and related policies and the alignment of incentives and rewards with culture, and takes these into account when setting the policy for Executive Director remuneration. The Committee appointed PwC as its independent adviser during the year.

The Committee also has oversight of customer and conduct risks.

Executive Committee

The Executive Committee is the management committee that assists the Chief Executive Officer in discharging his responsibilities and delegated authority. The previous Group Executive Committee was disbanded following the Acquisition. It is not a committee of the Board.

The Executive Committee is collectively responsible for implementing strategy and delivering performance. The members have a broad range of skills and expertise that are updated through training and development. Membership of the Executive Committee is set out on page 17 and comprises Ken Norgrove and Charlotte Jones, as well as the Chief Executive Officers of the European, Ireland, and Middle East businesses and key functional and business leaders.

On 31 December 2021, Scott Egan stepped down as Chief Executive Officer and left RSA. Ken Norgrove was appointed as Chief Executive Officer effective 10 January 2022 (subject to regulatory approval). Charlotte Jones acted as interim Chief Executive and supported the transition.

Following the reorganisation of the Commercial Lines business in the UK to align London Markets with Intact's Global Specialty Lines business, Rob Gibbs left RSA effective 31 December 2021. Lee Mooney and Steve Watson were appointed to the Executive Committee as Managing Director, Commercial Lines and Managing Director, UK Specialty, respectively, on 1 December 2021.

David Germain, Chief Information Officer, left RSA effective 30 November 2021. Oliver Holden joined RSA as Chief Information Officer and a member of the Executive Committee on 21 February 2022.

Report of the Directors

Directors

Following the acquisition of the Company by Intact and the de-listing of the Company's ordinary shares from the London Stock Exchange, the composition of the Board was reviewed and it was agreed that on 1 June 2021 the following Directors would resign from the Board of the Company: Martin Scicluna, Stephen Hester, Kath Cates, Enrico Cucchiani, Sonia Baxendale and Martin Strobel. The following individuals were appointed as Directors of the Company: Mark Hodges (as Chair), Sally Bridgeland, Andy Parsons, Charles Brindamour, Claude Dussault and Robert Leary. Alastair Barbour (appointed October 2011) and Clare Bousfield (appointed April 2020) remained on the Board. Clare Bousfield has indicated her intention to step down as a Director of the Board and Chair of the Audit Committee in Q1 2022. A new independent Non-executive Director will be recruited to join the Board in 2022. Alastair Barbour remained on the Board following the Acquisition to provide continuity and experience on the Board. Alastair intended to step down during 2021 having served on the Board for over 10 years. However, the Board requested that Alastair continue as a Director for a further year. The Board remains confident that Alastair continues to demonstrate independence of thought and judgement.

Charlotte Jones will step down as CFO and a Director of the Board on 31 March 2022. She will be succeeded by Ken Anderson with effect from 1 April 2022. Scott Egan stepped down as CEO and a Director of the Board effective 31 December 2021. Ken Norgrove was appointed as CEO and a Director of the Board effective 10 January 2022 (subject to regulatory approval).

Corporate Governance Statement

An overview of the corporate governance code applied by the Company is set out in the Corporate Governance Report on pages 18 to 20.

Dividend

No interim dividend was paid during the year ended 31 December 2021. The Company paid a dividend to its preference shareholders during the period and also declared a dividend in specie of £6,914m. The Directors do not recommend the payment of a final dividend for the year ended 31 December 2021.

Going concern

The consolidated financial statements have been prepared on a going concern basis. In adopting the going concern basis, the Board has reviewed the Group's ongoing commitments for the next twelve months and beyond. The Board's assessment included the review of Group's strategic plans and latest forecasts, capital position and liquidity including on demand capital funding arrangements with Intact Financial Corporation. The impact and uncertainty as a result of the Covid-19 pandemic, rising inflation, and the transition to a post Brexit environment has also been considered. These assessments include stress and scenario testing and consider significant areas of risk and uncertainty for the Group in the current challenging economic environment. Scenarios considered include a market risk shock involving several component stresses, plus deterioration of the underwriting result and a subsequent catastrophe loss. Climate stress testing has also been completed.

In making their assessment, the Board have reviewed the latest position on business interruption losses and availability of reinsurance to recover incurred claims and there have been no significant changes. The Board have considered the impact of events after the balance sheet date with none identified which could impact the Group's ability to continue as a going concern.

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.

Share capital

More information on the Company's share capital can be found in note 34 on page 88.

Preference shareholders are only entitled to receive notice of, attend, speak and vote at general meetings if the dividend payable on the preference shares is in arrears at the date of the Notice, a resolution is proposed that affects the rights of the preference shareholders, a resolution is proposed to wind-up the Company, a resolution is proposed to reduce the capital of the Company (other than a redemption or purchase of shares), or in such other circumstances as the Board shall determine.

In any of these situations, the preference shareholders may only vote on the relevant resolution and not on all the business of the general meeting.

Streamlined Energy and Carbon Reporting

We have reported on all sources of greenhouse gas (GHG) emissions as required by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 and the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.

Our reporting has been conducted in accordance with the World Resources Institute's GHG Protocol Corporate Accounting and Reporting Standard.

We have consolidated our organisational boundary according to the operational control approach, which includes emissions from all operations with 50 or more full-time equivalent employees. Where data is not provided by an operating entity, values have been estimated using either extrapolation of intensities from similar sites within RSA or using the previous data as a proxy.

All conversion factors have been sourced from recognised public sources, including the UK's Department for Business, Energy & Industrial Strategy, the International Energy Agency and the GHG Protocol's stationary combustion tool.

The 2021 data covers the period 1 January to 31 December. Data from 2021 and previous years has been restated to account for the disposal of RSA's Scandinavian business. Emissions from our legacy Canadian business will now be reflected in Intact's global reporting of its environmental footprint. Intact has committed to Net-Zero emissions by 2050 and halving operations emissions by 2030. We are integrating global carbon emissions data and reporting systems with Intact and will disclose a new climate change strategy in 2022.

Data has been subject to quality control by our external carbon footprint verifiers and consultants, EcoAct. EcoAct has supported RSA in our GHG emissions disclosures for five years. As we consolidate our approach to the capturing of environmental data across Intact and reconcile the potential impact of associated carbon reduction strategies across the global business we have postponed assurance in 2021. We will resume assurance in 2022 once our Group-wide climate change strategy and associated systems are in place.

Report of the Directors continued

tCO ₂ e emissions	2021	2020 ¹	2019 ¹	2018 ¹	2017 ¹
Scope 1	1,546	1,434	2,184	1,704	2,078
Scope 2 (location-based ^{LB})	2,840	3,160	4,218	4,903	6,227
Scope 2 (market-based ^{MB})	1,914	2,033	N/A	N/A	N/A
Scope 3	591	1,142	3,596	4,075	3,902
<i>Business travel</i>	285	811	3,226	3,658	3,503
Total emissions (Scope 1, 2, 3) ^{LB}	4,977	5,737	9,997	10,682	12,207
Total emissions (Scope 1, 2, 3) ^{MB}	4,051	4,610	N/A	N/A	N/A
Intensity ratio:					
Gross tonnes CO ₂ e per FTE ^{LB}	0.87	0.89	1.53	1.61	1.81
Gross tonnes CO ₂ e per FTE ^{MB}	0.70	0.72	N/A	N/A	N/A

Global energy use (kWh)	2021	2020
Electricity, district heating and cooling	17,962,864	19,001,387
Gas consumption	7,975,731	7,376,613
Transportation – vehicles	930,564	1,513,683
Total energy use	26,869,159	27,891,683

Notes

The emissions reported above have been restated versus numbers previously disclosed, in accordance with GHG Protocol guidelines.

1. Calculations have been amended to include data that was not available at the time of publication and reflect improvements in methodology (including updated emissions factors).

The GHG referenced in the table cover:

Scope 1: Direct emissions from RSA's activities, including natural gas consumption, diesel and company-owned vehicles.

Scope 2: Indirect emissions from purchased electricity, district cooling and district heating. This year we are reporting Scope 2 emissions according to two different methodologies (dual reporting): (i) the location-based method, using average emissions factors for the country in which the reported operations take place; and (ii) the market-based method, which uses the actual emissions factors of the energy procured.

Scope 3: Emissions relating to RSA activities not within our direct control, including business travel, water supply, wastewater treatment, paper consumption and waste generated. These are the only Scope 3 categories included.

Business travel: Emissions from flights, trains and vehicles not owned by the organisation.

Among carbon reduction activities explored in the Environment section on pages 11 and 12, this year our Corporate Real Estate teams have been reviewing the practicalities of installing electric vehicle (EV) charging points at our sites. Our Chelmsford office now has nine spaces available for EV charging with a rollout plan in 2022 for Horsham and Liverpool. In addition, chargers have been installed in Bristol with Birmingham and Peterborough expected to follow in 2022.

We are reporting our Scope 2 market-based emissions to reflect our purchase of REGO-backed renewable electricity at UK sites where we are directly responsible for energy procurement or have engaged with landlords to switch to a renewable supply. Across the UK&I region 55% of electricity for our premises is from renewable sources. In the UK this figure is 66%.

Charitable donations

During the year donations to charities were made amounting to £0.87m.

No political donations were made during the year.

Conflicts of interest

In accordance with section 175 of the Companies Act 2006, each director has a duty to avoid conflicts of interest. Under Articles 15.1 and 15.2 of the Company's Articles of Association, conflicts of interest may be authorised by the Board or a Board committee. Directors are required to notify the Company Secretary when a potential conflict of interest arises. Each Director's conflicts of interest are reviewed on an annual basis. Any director who has declared a conflict of interest shall not count towards the quorum or vote on any resolution to authorise the conflict of interest and, at the Board's discretion, may be excluded from any meeting at which the conflict of interest is under consideration. Where a conflict of interest is authorised, restrictions may be imposed on the conflicted director, such as excluding the director from the discussion or restricting the receipt of information in connection with the conflict of interest.

The Board confirms that it has reviewed the schedule of directors' conflicts of interest during the year and that the procedures in place operated effectively in 2021. None of the Directors had an interest in any contract of significance with the Company or any of its subsidiaries during 2021. The Board also considers at each meeting whether there is any potential conflict of interest for the shareholder-nominated Directors.

Directors' Indemnity

Article 84 of the Articles of Association provides that, among other things and insofar as permitted by law, the Company may indemnify its directors against any liability and may purchase and maintain insurance against any liability. The Company has granted an indemnity to each of the directors pursuant to the power conferred by Article 84.1 of the Articles of Association.

The indemnities granted constitute qualifying third-party indemnity provisions, as defined by section 234 of the Companies Act 2006, and is in addition to appropriate insurance cover. The Company believes that it promotes the success of the Company to provide this indemnity to its Directors in order to ensure that RSA attracts and retains high calibre Directors through competitive terms of employment in line with market standards. The Directors and officers of the Company and its subsidiaries also have the benefit of Directors & Officers insurance which provides suitable cover in respect of legal actions brought against them.

In addition, the Company maintains a pension trustee liability insurance policy for the directors of SAL Pension Fund Limited and Royal & Sun Alliance Pension Trustee Limited, subsidiaries of the Group, in relation to such person's role as a trustee of an occupational pension scheme. This insurance constitutes a qualifying pension scheme indemnity provision under section 235 of the Companies Act 2006. These insurances were in force during the year ended 31 December 2021 and remain in force as at the date of this report.

Workforce and stakeholder engagement statements

An overview of how the Directors have fostered relations with the Company's suppliers, customers and other key stakeholders is included in the Company's s.172 statement on pages 8 to 10 of the Strategic Report.

Further information on workforce engagement, as required by the Companies Act 2006 is also included below under Our people.

Our people

The Board and members of the Executive Committee engaged extensively with colleagues via town halls and internal communications including emails and intranet postings to provide updates, where possible, on the acquisition of RSA by Intact. Following completion of the Acquisition, Intact and RSA's Chief Executive Officers have hosted live webinars and Q&A sessions for all colleagues to provide updates on RSA's integration with Intact, strategic ambitions and key factors affecting the structure and performance of the Company.

Our people have always been central to achieving our core purpose, and our culture of support for personal well-being, diversity and equal opportunity to excel is important to us. This is underpinned by Company-wide HR policies and our People Principles of: Building High Performance, Sustaining Diverse Capabilities and Working Together Effectively.

Building High Performance

We believe in enabling our people to bring their best selves to work. We encourage continuous feedback and development and have formal biannual reviews for employees and their managers to discuss business goals and performance, as well as an opportunity to talk about career plans. Formal reviews generate ratings which take into account 'what' has been delivered along with 'how' and contribute to reward decisions. This ensures that our values-based culture and the way we do things have equal status with end results and support individuals in driving their personal development plans.

As development can take many forms and evolve over time, we offer a range of options such as apprenticeship and leadership programmes, technical career pathways, online training, coaching and mentoring. These run from entry-level roles right through to degree and masters qualifications. We take time to share and celebrate achievements by our people within the Company and in the community through year-round peer recognition schemes. In the UK, Europe and Ireland, senior leaders also host events to showcase the stand-out behaviours of individuals who were nominated by peers for special recognition. In 2021, our people made just over 3,500 nominations for this special recognition.

Sustaining Diverse Capabilities

Having experienced the benefits of diverse opinions and perspectives, we continue to promote inclusivity, including ensuring there is no less favourable treatment on the grounds of sex, sexual orientation, gender re-assignment, marital or civil partnership status, race (including colour, nationality, ethnic or national origin), disability, religion or belief, age, and pregnancy and maternity, and that reasonable adjustments are provided for people with disabilities who are applying to or already working with us.

An executive-led Diversity & Inclusion Council oversees our diversity strategy which aligns to our commitments as signatories to the Women in Finance Charter, Race at Work Charter, the 10,000 Black Interns Programme and the Valuable 500. Our network of Employee Resource Groups, mental health first-aiders and membership of the UK Business Disability Forum contribute to how we can best support colleagues. These groups are incredibly well-received in the business and participation is strong. For example, we enhanced UK support for parents and carers, and 'listening groups' with our UK Black, Asian and other ethnic minority colleagues and contributed to training on Inclusive Language & Communications, Understanding Race Bias and focused Anti-racism & Allyship sessions with leaders.

Working Together Effectively

Company-wide Employment Practices and Speaking-up & Whistleblowing policies set out the standards for local people policies and practices and are reviewed annually via our risk governance which is reviewed at Board level.

We believe in transparency; therefore all colleagues have access to confidential procedures to raise concerns impacting them personally and any broader suspicions of wrongdoing within the Company. In addition, we promote many communication channels and also welcome views from our workforce through regular and constructive dialogue with trade unions and a European Works Council. These range from formal to informal mechanisms to support an open and inclusive culture where speaking up and having a voice is at the heart of how we operate.

Scores from 2021 employee surveys in each of our countries range from 74% to 81%, which indicates our people are highly engaged. Areas of particular strength were our inclusive culture and solid understanding of goals.

Covid-19 meant a significant shift in the way we work and our colleagues rallied to this. As we look forward, we are taking onboard employee feedback for sustained flexibility in the long term. We are developing hybrid working (a mix of home and office bases) which strikes a balance in patterns that work for individual employees and serve our customers well. We trust our people to deliver good outcomes for our customers and our business, regardless of where they work; we have learned that we can collaborate and solve problems wherever we are.

As always, protecting the health, safety and well-being of colleagues is a priority and this will continue to be at the top of our agenda by listening to our people, understanding what they need to be effective at work and providing resources for practical and emotional support.

Our transition as part of Intact provides opportunities to build on our ambitions. Equally, we recognise that change can sometimes also create uncertainty; therefore guiding our people through this is front of mind. We have already completed significant integration activities following the Acquisition and identified ways to share best practice between Intact and RSA. We look forward to further developing these as the alignment of values and ways of working bed down further in 2022.

Modern slavery

As per section 54(1) of the Modern Slavery Act 2015, our Slavery and Human Trafficking Statement is published annually on our website. The statement covers the activities of the RSA Group and details policies, processes and actions we have put in place to ensure that appropriate steps are taken to protect against slavery and human trafficking in our supply chains and all parts of our own business.

Management report

The Strategic Report is considered to form the management report for the purpose of DTR 4.1.8.R.

Directors' Report

The Directors' Report for the year ended 31 December 2021, was approved by order of the Board and signed on its behalf.



Jonathan Cope

General Counsel and Company Secretary

11 March 2022

Group consolidated financial statements

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Directors' responsibilities

The directors are responsible for preparing the Annual Report and the RSA Insurance Group Limited ('Group') and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and Parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with UK-adopted International Accounting Standards (IAS) and the requirements of the Companies Act 2006 and applicable law and have elected to prepare the Parent Company financial statements on the same basis.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of the Group's profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are reasonable, relevant and reliable
- State whether they have been prepared in accordance with UK-adopted IAS and the requirements of the Companies Act 2006 and applicable law
- Assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern
- Use the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report, Directors' Report and Corporate Governance Statement that complies with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that, to the best of our knowledge:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Parent Company and the undertakings included in the consolidation taken as a whole.
- The Strategic Report includes a fair review of the development and performance of the business and the position of the Parent Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.



Ken Norgrove
Group Chief Executive

11 March 2022



Charlotte Jones
Group Chief Financial Officer

11 March 2022

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

1. Our opinion is unmodified

We have audited the financial statements of RSA Insurance Group Limited ("the Company") for the year ended 31 December 2021 which comprise the consolidated income statement, consolidated and parent company statement of comprehensive income, consolidated and parent company statement of changes in equity, consolidated and parent company statement of financial position, consolidated and parent company statement of cash flows, and the related notes, including the accounting policies in note 5 for the group and note 4 for the parent company.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with UK-adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

We were first appointed as auditor by the shareholders on 13 May 2013. The period of total uninterrupted engagement is for the nine financial years ended 31 December 2021. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality:		£34m (2020: £35m)
group financial statements as a whole	0.8% (2020: 0.6%) of net earned premiums	
Coverage		95% (2020: 96%) of net earned premiums
Key audit matters		vs 2020
Recurring risks	Valuation of insurance liabilities	◀▶
	Valuation of post-employment benefits and obligations	◀▶
	Valuation of deferred tax assets	◀▶
	Valuation of parent company's investment in subsidiaries	◀▶



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

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

	The risk	Our response
Valuation of insurance liabilities Insurance contract liabilities 2021: £5,276 million gross, £3,628 million net; 2020: £9,379 million gross, £7,755 million net, relating to provision for losses and loss adjustment expenses <i>Refer to pages 44 and 45 (accounting policy) and pages 90 to 95 (financial disclosures)</i>	<p>Subjective valuation: Insurance liabilities represent the single largest liability for the Group. Valuation of these liabilities is highly subjective, requiring a number of assumptions to be made with high estimation uncertainty. The determination and application of the methodologies are also complex.</p> <p>A margin is added to the actuarial best estimate of insurance liabilities to make allowance for specific risks and uncertainties that are not specifically allowed for in establishing the actuarial best estimate. The appropriate margin to recognise is a subjective judgment and estimate taken by the directors, based on the perceived uncertainty and potential for volatility in the underlying claims.</p> <p>Certain lines of business have greater inherent uncertainty, such as those where claims emerge slowly over time, or where there is greater potential exposure to large losses due to the effect of uncertain or unknown incurred events. Additional uncertainty is currently being experienced as a result of the COVID-19 pandemic and the estimation of resulting claims and reinsurance cover, particularly for business interruption cases and the impact of the FCA Test Case ruling, and reductions in claims frequency experienced for some classes of business.</p> <p>Reinsurance recoveries are inherently linked to gross insurance liabilities. The extent of recoveries from the Group's 'Group Volatility Cover' ('GVC') reinsurance contract is a key area of uncertainty due to the judgement applied in determining the value of individual claims eligible for the GVC, some of which are no longer managed within the RSA Group, and aggregation of eligible claims required to trigger a recovery.</p>	<p>With the assistance of our own actuarial specialists across the Group and component audit teams, our procedures included:</p> <ul style="list-style-type: none"> • Data comparisons: We inspected reconciliations between the claims data recorded in the policy administration systems and the data used in the actuarial reserving calculations to test the completeness of the data used in the actuarial reserving process; • Independent re-performance: We performed independent re-projections of reserve balances using our own models for certain classes of business. The determination of which classes to re-project was based on risk assessment and consideration of the evidence available from other alternative data analysis procedures; • Our sector experience and benchmarking assumptions: We applied our industry experience and market benchmarks to support our consideration and challenge of the Group's reserving methodology, key judgements and assumptions for the most significant and objective classes of business; • Sensitivity analysis: We evaluated sensitivity analysis over key judgments and assumptions, such as large claims, the impact of COVID-19 and the discount rates for longer tail classes of business; • Margin evaluation: We evaluated the appropriateness of the margin to be applied to the actuarial best estimate. In order to do this we assessed the directors' approach to setting the margin. In particular we considered the allowance for uncertainties inherent in the data and assumptions in developing the actuarial best estimate through inquiry with the directors and with respect to our understanding of any changes in the Group's risks and our own sector experience of approaches to setting the margin and the level of margin held by the Group's peers;

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

	The risk	Our response
Valuation of insurance liabilities (cont.)	<p>The RSA Group has recently entered into a new adverse development reinsurance arrangement. The accounting treatment, including the assessment of risk transfer, is dependent on the contractual terms and will have a significant impact on the financial statements.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the valuation of insurance liabilities has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 39) disclose the sensitivity estimated by the Group.</p> <p>Data capture: The valuation of insurance liabilities depends on complete and accurate data about the volume, amount and pattern of current and historical claims since they are often used to form expectations about incurred claims. If the data used in calculating insurance liabilities, or for forming judgments over key assumptions, is not complete and accurate then material impacts on the valuation of insurance liabilities may arise.</p>	<ul style="list-style-type: none"> • Assessing principles: We inspected selected Business Interruption policy documents, and external information to verify exposure as a result of COVID-19 business interruption (BI) claims and the resulting reinsurance recoveries recognised. We inspected the legal advice received by management and considered the appropriateness of management judgements against this advice; • Tests of details: We compared samples of claims case reserves to appropriate documentation, such as reports from loss adjusters in order to test the valuation of individual claims reserves focused on portfolios deemed higher risk, whether that be due to size, complexity or uncertainty. This covered the accuracy of the relevant policy data elements relied upon within actuarial methods in their testing of the valuation of insurance liabilities. Further, for the COVID-19 BI claims, we inspected management's date of loss analysis which underpins the reinsurance recoveries recognised and assessed the reasonableness of this analysis and management's conclusions. We obtained the relevant reinsurance contracts and recalculated the resulting reinsurance recoveries. We have also assessed the appropriateness of the accounting treatment adopted in respect of the new adverse development cover entered into during the year; • Assessing transparency: We considered the adequacy of the Group's disclosures in respect of the sensitivity of the insurance liabilities and key assumptions applied to key areas of judgement and estimation uncertainty. <p>We performed the tests above over the valuation rather than seeking to rely on the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.</p> <p>Our results We found the valuation of the insurance liabilities to be acceptable (2020 result: acceptable).</p>
Valuation of post-employment benefits and obligations (2021: £8,679 million; 2020: £9,401 million) <i>Refer to page 48 (accounting policy) and pages 96 to 101 (financial disclosures).</i>	<p>Subjective valuation: Small changes in the assumptions and estimates used, in particular the discount rate, inflation rate and mortality rate, which are highly sensitive to market and geographic circumstances can have a significant effect on the valuation of the Group's post-employment obligations and therefore the amount of the post-employment benefits and obligations and the Group's financial position.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the valuation of post-employment benefits and obligations has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole and possibly many times that amount. The financial statements (note 41) disclose the sensitivity estimated by the Group.</p>	<p>With the assistance of our own pension actuarial specialists, our procedures included:</p> <ul style="list-style-type: none"> • Benchmarking assumptions and our experience: We compared the key assumptions such as discount rate, inflation rate and mortality rate against our independent models using external data and information relating to the pension schemes' liability and demographic profile. • Assessing valuer's credentials: We evaluated the Group's external valuer's competence, objectivity, capability and scope of work. • Assessing transparency: We considered the adequacy of the Group's disclosures in respect of the sensitivity of the defined pension obligation to these assumptions. <p>We performed the tests above rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.</p> <p>Our results We found the valuation of the post-employment benefits and obligations to be acceptable (2020 result: acceptable).</p>

	The risk	Our response
<p>Valuation of deferred tax assets (2021: £146 million of the total deferred tax assets of £148 million; 2020: £181 million of £199 million)</p> <p><i>Refer to page 47 (accounting policy) and pages 86 and 87 (financial disclosures).</i></p>	<p>Forecast-based assessment: The recoverability of the recognised deferred tax asset is dependent on the future profitability of the UK business, in particular Royal & Sun Alliance Insurance Limited, as the taxable legal entity. There is inherent uncertainty involved in developing the Group's operational plan upon which forecast future taxable profits are based and further judgement in assessing to what extent the deferred tax assets can be recovered against those forecast taxable profits, particularly following the acquisition transaction of the Group. These forecasts determine the extent to which deferred tax assets are or are not recognised in the financial statements.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the recoverable amount of deferred tax assets has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (note 31) disclose the sensitivity estimated by the Group.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • Historical comparisons: We assessed the accuracy of the Group's approved operating plan in relation to the forecasting process in the past. We considered whether projected margins are achievable in light of the acquisition and with reference to the business' recent performance and operating plans. • Our experience: We assessed the Group's approach to the assessment of recoverability and challenged the approach with reference to our understanding of the business and the requirements of the relevant accounting standards. • Sensitivity analysis: We carried out independent sensitivity analyses of taxable profits to assumptions such as expected weather losses, the development of claims reserves and claims inflation, projected future growth rates and improvements in operating margins, future investment returns, and the projection period used for the forecast taxable profits. • Our tax expertise: With the support of our own tax specialists and their knowledge of tax legislation, we also assessed the extent to which projected profits were taxable, in particular the Group's assumptions about how accumulated tax losses and other similar items can be utilised within the Group against the UK business, and Royal & Sun Alliance Insurance Limited as the taxable legal entity, in particular. • Assessing transparency: We assessed the adequacy of the Group's disclosures in respect of the assumptions applied in the calculation and the adequacy of the Group's disclosures in respect of the sensitivity of the valuation of the deferred tax asset to key assumptions. <p>We performed the tests above rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.</p> <p>Our results As a result of our work, we found the level of deferred tax assets recognised to be acceptable (2020 result: acceptable).</p>
<p>Valuation of parent company's investment in subsidiaries (2021: £2,405 million; 2020: £6,276 million)</p> <p><i>Refer to page 120 (accounting policy, Investments in Subsidiaries) and page 122 (financial disclosures).</i></p>	<p>The carrying amount of the parent company's investments in subsidiaries represents 63% (2020: 71%) of the company's total assets. Fair value for the key operating subsidiaries is calculated by applying the income approach which uses discounted cash flow models to assess the present value of expected future economic benefits. Key assumptions include the discount rate and cash flows.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the valuation of investment in subsidiaries has estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the parent company's financial statements as a whole. The parent company's financial statements (note 9) disclose the sensitivity estimated by the Company.</p>	<p>With the assistance of our own valuation specialists, our procedures included:</p> <ul style="list-style-type: none"> • Assessing valuer's credentials: We evaluated the Group's external valuer's competence, objectivity, capability and scope of work. • Our experience and benchmarking assumptions: We applied our market experience and knowledge of the operating subsidiaries to challenge the methodology and key assumptions applied by the Group's valuer. • Test of details: We agreed net asset values to underlying financial reporting for less material subsidiaries. We also evaluated the underlying data used in the cash flow forecasts, on which the valuations were based. • Assessing transparency: We considered the adequacy of the Company's disclosures in respect of the sensitivity of the valuation to the key assumptions. <p>We performed the tests above rather than seeking to rely on any of the Company's controls because the nature of the balance is such that we would expect to obtain audit evidence through the detailed procedures described.</p> <p>Our results: We found the assessment of the valuation of the parent company's investment in subsidiaries to be acceptable (2020 result: acceptable).</p>

We previously reported a key audit matter in relation to the existence of insurance debtors. However, following the correcting adjustment required in 2020 to address an issue relating to the historic reconciliation of insurance debtor balances in Sweden, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.



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

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

Materiality for the group financial statements as a whole was set at £34m (2020: £35m), determined with reference to a benchmark of net earned premiums (of which it represents 0.8% (2020: 0.6%)).

We continue to consider net earned premiums to be the most appropriate benchmark and a fair reflection of revenue from the Group's operations because it is a revenue metric per the accounting standards, matches to claims cost, is less distorted by seasonal fluctuations and takes into account the reinsurance programme in place.

Materiality for the parent company financial statements as a whole was set at £30m (2020: £32m), which is capped at 90% of Group materiality and with reference to a benchmark of net assets of which it represents 0.9% (2020: 0.4%).

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

Performance materiality for the group was set at 65% (2020: 65%) of materiality for the financial statements as a whole, which equates to £22.1m (2020: £22.8m). We applied this percentage in our determination of performance materiality based on the level of identified control deficiencies during the prior period and the number of areas of significant judgement in the audit.

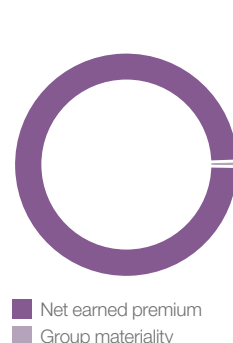
Performance materiality for the parent company was set at 75% (2020: 75%) of materiality, which equates to £22.5m (2020: £24.0m). We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk for the parent company.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £1.70m (2020: £1.75m) in the group financial statements; and £1.50m (2020: £1.50m) in the parent company financial statements, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the group's seven (2020: seven) reporting components, we subjected the UK component to a full scope audit and the components located in Canada and Scandinavia to full scope audits for the period they were owned by the group. The Ireland component was instructed to perform specific risk-focused audit procedures relating to insurance liabilities and cash during the year. Specified risk-focused audit procedures were also performed over investments, cash and reinsurance debtors balances within two of the reporting components, where specific risks were identified. This scoping decision was made for the first time in order to provide further coverage over the group's results. The components for which we performed specified risk-focused procedures were not financially significant enough to subject to a full scope audit for group reporting purposes, but did present specific individual risks that needed to be addressed.

Net earned premium

£4,330m (2020: £6,199m)

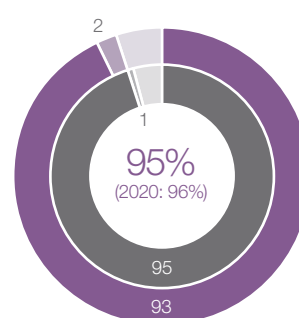


Group Materiality

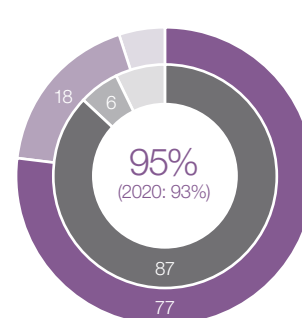
£34m (2019: £35m)



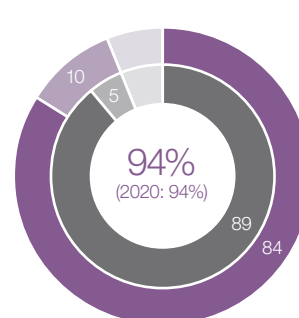
Group net earned premium



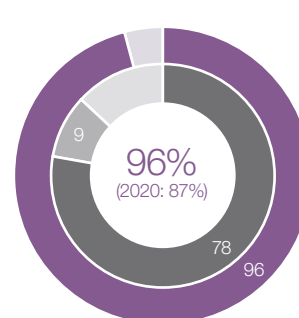
Group insurance contract liabilities



Group total assets



Total profits and losses that made up Group profit before tax



2021 2020

Full scope for group audit purposes
 Specified risk-focused audit procedures
 Residual components



The parent company's financial assets had previously been subjected to specific risk-focused audit procedures. Due to the fact that the parent company had transferred all of its financial assets to its subsidiary during the year, it was descope from the group audit for the 2021 year-end audit. Other scoping decisions remained unchanged from the previous year's audit.

The components within the scope of our work accounted for the percentages illustrated below. For the residual components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, which ranged from £10m to £27m (2020: £10m to £28m), having regard to the mix of size and risk profile of the Group across the components. The audit procedures over the Canada, Scandinavia and Ireland components (2020: Canada, Scandinavia and Ireland) were performed by component auditors. All other audit procedures, as well as the parent company audit, were performed by the Group team.

The scope of the audit work performed was predominately substantive as we placed limited reliance upon the Group's internal control over financial reporting.

The Group team visited nil (2020: nil) component locations during the year due to travels restrictions as a result of the pandemic and instead maintained the virtual interactions with component teams. Video and telephone conference meetings were held with the component auditors and local management since they were not physically visited. At these meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

4. Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group's and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect The Group's and Company's available financial resources over this period were:

- adverse insurance reserves development, potentially caused by ongoing impacts of the COVID-19 pandemic;
- a deterioration in claims experience, potentially caused by market wide catastrophe event(s) or economic factors such as inflation;
- a deterioration in the valuation of the Group's investments arising from a significant change in the economic environment; and
- a decrease in the Group's net pension surplus.

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

Our procedures also included:

- Consideration of specific scenarios that could reasonably arise in relation to the COVID-19 pandemic including adverse outcomes in respect of Business Interruption claims.
- Evaluation of the consistency, arithmetical accuracy and reasonableness of the data and assumptions used in management's Going Concern assessment paper.
- We considered whether the going concern disclosure in note 1 to the financial statements gives a full and accurate description of the directors' assessment of going concern, including the identified risks, dependencies, and related sensitivities.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in note 1 to be acceptable.

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

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

Identifying and responding to risks of material misstatement due to fraud

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

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



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

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

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

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

We performed procedures including:

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

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

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

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

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

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

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

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's licence to operate. We identified the following areas as those most likely to have such an effect: regulatory capital and liquidity, conduct regulation and certain aspects of company legislation recognising the financial and regulated nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

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

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

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

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

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

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

Strategic report and directors' report

Based solely on our work on the other information:

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



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

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

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 27, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

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

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



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

15 Canada Square
London
E14 5GL

11 March 2022



Consolidated income statement

For the year ended 31 December 2021

	Note	2021 £m	Re-presented ¹ 2020 £m
Continuing operations			
Income			
Gross written premiums		4,294	3,988
Less: reinsurance written premiums		(1,001)	(950)
Net written premiums	9	3,293	3,038
Change in the gross provision for unearned premiums		(44)	29
Change in provision for unearned reinsurance premiums		(42)	(34)
Change in provision for net unearned premiums		(86)	(5)
Net earned premiums		3,207	3,033
Net investment return	10	160	110
Other operating income	12	82	93
Total income		3,449	3,236
Expenses			
Gross claims incurred		(2,959)	(2,527)
Less: claims recoveries from reinsurers		759	607
Net claims	11	(2,200)	(1,920)
Underwriting and policy acquisition costs		(1,223)	(1,169)
Unwind of discount		(6)	(7)
Other operating expenses	13	(172)	(123)
		(3,601)	(3,219)
Finance costs	14	(76)	(30)
Loss on disposal of businesses	8	–	(5)
Net share of profit after tax of associates		–	1
Loss before tax from continuing operations	9	(228)	(17)
Income tax expense	19	(33)	(2)
Loss after tax from continuing operations		(261)	(19)
Profit from discontinued operations, net of tax	7	4,531	383
Profit for the year		4,270	364
Attributable to:			
Owners of the Parent Company from continuing operations		(263)	(38)
Owners of the Parent Company from discontinued operations		4,531	383
Total Owners of the Parent Company		4,268	345
Non-controlling interests		2	19
		4,270	364

1. Comparatives have been re-presented to show Scandinavia and Canada as discontinued operations. Refer to note 7 for further information.

The attached notes form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2021

	Note	2021 £m	Re-presented ¹ 2020 £m
Loss for the year from continuing operations		(261)	(19)
Profit for the year from discontinued operations		4,531	383
Profit for the year		4,270	364
Items from continuing operations that may be reclassified to the income statement:			
Exchange losses net of tax on translation of foreign operations	22	(14)	(5)
Fair value (losses)/gains on available for sale financial assets net of tax	22	(79)	79
		(93)	74
Items from continuing operations that will not be reclassified to the income statement:			
Pension – remeasurement of net defined benefit asset/liability net of tax	22	(70)	(25)
Other comprehensive (expense)/income for the year from continuing operations		(163)	49
Other comprehensive (expense)/income for the year from discontinued operations	7	(129)	79
Total other comprehensive (expense)/income for the year	22	(292)	128
Comprehensive (expense)/income for the year from continuing operations		(424)	30
Comprehensive income for the year from discontinued operations	7	4,402	462
Total comprehensive income for the year		3,978	492
Attributable to:			
Owners of the Parent Company from continuing operations		(426)	16
Owners of the Parent Company from discontinued operations		4,402	462
Total Owners of the Parent Company		3,976	478
Non-controlling interests		2	14
		3,978	492

1. Comparatives have been re-presented to show Scandinavia and Canada as discontinued operations. Refer to note 7 for further information.
The attached notes form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2021

	Ordinary share capital £m	Ordinary share premium £m	Preference shares £m	Tier 1 notes £m	Revaluation reserves £m	Capital redemption reserve £m	Foreign currency translation reserve £m	Retained earnings £m	Equity attributable to owners of the Parent Company £m	Non- controlling interests £m	Total equity £m
Balance at 1 January 2020	1,032	1,090	125	297	259	389	(26)	1,003	4,169	173	4,342
Total comprehensive income											
Profit for the year	–	–	–	–	–	–	–	345	345	19	364
Other comprehensive income/(expense) (note 22)	–	–	–	–	112	–	46	(25)	133	(5)	128
	–	–	–	–	112	–	46	320	478	14	492
Transactions with owners of the Group											
Contribution and distribution											
Dividends (note 21/36)	–	–	–	–	–	–	–	(108)	(108)	(13)	(121)
Shares issued for cash (note 34)	1	5	–	–	–	–	–	–	6	–	6
Share-based payments (note 34)	2	–	–	–	–	–	–	17	19	–	19
	3	5	–	–	–	–	–	(91)	(83)	(13)	(96)
Changes in shareholders' interests in subsidiaries	–	–	–	–	–	–	–	–	–	(8)	(8)
Total transactions with owners of the Group	3	5	–	–	–	–	–	(91)	(83)	(21)	(104)
Balance at 1 January 2021	1,035	1,095	125	297	371	389	20	1,232	4,564	166	4,730
Total comprehensive income											
Profit for the year	–	–	–	–	–	–	–	4,268	4,268	2	4,270
Other comprehensive (expense)/income (note 22)	–	–	–	–	(267)	–	33	(58)	(292)	–	(292)
	–	–	–	–	(267)	–	33	4,210	3,976	2	3,978
Transactions with owners of the Group											
Contribution and distribution											
Dividends (note 21/36)	–	–	–	–	–	–	–	(6,938)	(6,938)	(10)	(6,948)
Shares issued for cash (note 34)	1,023	282	–	–	–	–	–	–	1,305	–	1,305
Share-based payments (note 34)	11	–	–	–	–	–	–	17	28	–	28
Transfers	–	–	–	–	1	–	–	(1)	–	–	–
Capital reduction ¹	(800)	(1,095)	–	–	–	(389)	–	2,284	–	–	–
	234	(813)	–	–	1	(389)	–	(4,638)	(5,605)	(10)	(5,615)
Changes in shareholders' interests in subsidiaries	–	–	–	–	–	–	–	–	–	(2)	(2)
Total transactions with owners of the Group	234	(813)	–	–	1	(389)	–	(4,638)	(5,605)	(12)	(5,617)
Balance at 31 December 2021	1,269	282	125	297	105	–	53	804	2,935	156	3,091

1. A reduction of the Company's share capital of **£800m**, share premium of **£1,095m** and capital redemption reserve of **£389m** was effected in June 2021 by special resolution supported by a solvency statement which resulted in the creation of distributable reserves of **£2,284m**.

The attached notes form an integral part of these consolidated financial statements.

Consolidated statement of financial position

As at 31 December 2021

	Note	2021 £m	2020 £m
Assets			
Goodwill and other intangible assets	23	312	868
Property and equipment	24	91	237
Investment property	25	371	285
Investments in associates		–	5
Financial assets	26	5,530	11,826
Total investments		5,901	12,116
Reinsurers' share of insurance contract liabilities	29	2,291	2,340
Insurance and reinsurance debtors	30	1,916	2,989
Deferred tax assets	31	148	199
Current tax assets	31	2	23
Other debtors and other assets	32	737	840
Other assets		887	1,062
Cash and cash equivalents	33	500	1,094
Total assets		11,898	20,706
Equity and liabilities			
Equity			
Equity attributable to owners of the Parent Company		2,935	4,564
Non-controlling interests		156	166
Total equity		3,091	4,730
Liabilities			
Issued debt	37	165	751
Insurance contract liabilities	39	7,185	12,614
Insurance and reinsurance liabilities	40	842	932
Borrowings	38	8	132
Deferred tax liabilities	31	–	105
Current tax liabilities	31	4	40
Provisions	42	50	172
Other liabilities	43	553	1,230
Provisions and other liabilities		607	1,547
Total liabilities		8,807	15,976
Total equity and liabilities		11,898	20,706

The attached notes form an integral part of these consolidated financial statements.

The financial statements were approved on 11 March 2022 by the Board of Directors and are signed on its behalf by:



Charlotte Jones

Group Chief Financial Officer

Consolidated statement of cash flows

For the year ended 31 December 2021

	Note	2021 £m	2020 £m
Cash flows from operating activities			
Cash generated from operating activities	45	357	661
Tax paid		(99)	(87)
Net cash flows from operating activities		258	574
Cash flows from investing activities			
Proceeds from sales or maturities of:			
Financial assets		1,738	3,244
Property and equipment		1	–
Intangible assets		–	1
Subsidiaries and associates (net of cash disposed of)		6,559	3
Dividends from associates		1	–
Purchase of:			
Financial assets		(2,615)	(3,261)
Property and equipment	24	(13)	(23)
Intangible assets	23	(104)	(122)
Subsidiaries		(1)	–
Net cash flows from investing activities		5,566	(158)
Cash flows from financing activities			
Proceeds from issue of share capital		1,305	6
Dividends paid to ordinary shareholders	21	(6,914)	(83)
Coupon payment on Tier 1 notes	21	(15)	(16)
Dividends paid to preference shareholders	21	(9)	(9)
Dividends paid to non-controlling interests	36	(10)	(13)
Redemption of debt instruments	46	(642)	–
Payment of lease liabilities	46	(24)	(44)
Movement in other borrowings	46	(71)	(33)
Interest paid	46	(26)	(33)
Net cash flows from financing activities		(6,406)	(225)
Net increase in cash and cash equivalents		(582)	191
Cash and cash equivalents at the beginning of the year		1,083	886
Effect of changes in foreign exchange on cash and cash equivalents		(9)	6
Cash and cash equivalents at the end of the year	33	492	1,083

The attached notes form an integral part of these consolidated financial statements.

Basis of preparation and significant accounting policies

RSA Insurance Group Limited (the Company), formerly RSA Insurance Group plc, was re-registered as a private limited company on 26 May 2021 and the Company's ordinary share capital was purchased by Regent Bidco Limited (a wholly owned subsidiary of Intact Financial Corporation) on 1 June 2021 (the acquisition). The Company's ultimate parent company and controlling party is Intact Financial Corporation. The Company is incorporated and domiciled in England and Wales and, through its subsidiaries and associates (together the Group or RSA), provides personal and commercial insurance products to its global customer base, principally in the UK, Ireland, Europe and Middle East. On 1 June 2021, the Group disposed of its operations in Scandinavia (Codan A/S) and Canada (Roins Holdings Limited), and these have been classified as discontinued operations (refer to note 7 for further information).

1) Basis of preparation

The consolidated financial statements have been prepared in accordance with UK-adopted International Accounting Standards and the requirements of Companies Act 2006. The consolidated financial statements are prepared on a historical cost basis. Where other bases are applied, these are identified in the relevant accounting policy.

The consolidated financial statements have been prepared on a going concern basis. In adopting the going concern basis, the Board has reviewed the Group's ongoing commitments for the next twelve months and beyond. The Board's assessment included the review of Group's strategic plans and latest forecasts, capital position and liquidity including on demand capital funding arrangements with Intact Financial Corporation. The impact and uncertainty as a result of the Covid-19 pandemic, rising inflation, and the transition to a post Brexit environment has also been considered. These assessments include stress and scenario testing and consider significant areas of risk and uncertainty for the Group in the current challenging economic environment. Scenarios considered include a market risk shock involving several component stresses, plus deterioration of the underwriting result and a subsequent catastrophe loss. Climate stress testing has also been completed. In making their assessment, the Board have reviewed the latest position on business interruption losses and availability of reinsurance to recover incurred claims and there have been no significant changes. The Board have considered the impact of events after the balance sheet date with none identified which could impact the Group's ability to continue as a going concern. Based on this review no material uncertainties that would require disclosure have been identified in relation to the ability of the Group to remain a going concern for at least the next twelve months, from both the date of the consolidated statement of financial position and the approval of the consolidated financial statements.

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

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

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

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

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

Accounting policies that are significant to understanding the performance, financial position and cash flows of the Group are set out in note 5 with other policies presented in Appendix A. The notes are grouped together by their nature.

Basis of preparation and significant accounting policies continued

2) Significant accounting estimates and 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. These estimates have been reviewed following the disposals of the Group's operations in Scandinavia and Canada, and any changes as a result of this have been disclosed below or 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 ultimate outcome of the claim events that have occurred but remain unsettled at the end of the reporting period. Key assumptions include prior experience and trends to the extent they are a reliable guide to future outcomes, changes in various key areas such as pricing, underwriting, claims, reinsurance, inflation and the wider economic environment, which could affect claims experience, and Covid-19 estimates which remain a heightened area of uncertainty with respect to the valuation of the insurance contract liabilities. Covid-19 business interruption (BI) gross claims cost uncertainty remains high but reduces over time as initial estimates are replaced with maturing claims and case information, updates for which have been included in the claims estimates at 31 December 2021. The ultimate Covid-19 BI claims liability could be materially different from the current estimate as claims information develops further, as legal and regulatory interpretations throughout the industry evolve and clarify the criteria for eligible claims and the level of cover available and as claims information matures given the complexity. Whilst the Group has considerable reinsurance protection against changes in gross estimate, the net estimate is dependent on the extent to which losses are recoverable under the reinsurance contracts and how this compares to the Group's expectations. Aside from direct BI losses, Covid-19 has increased the level of estimation uncertainty for many classes of business and loss types with key assumptions impacted such as frequency, severity and claims development patterns. Many of the drivers of the uncertainty in these areas are external factors and require estimation to assess the impact.

In addition, management continually monitors claims experience, emerging trends and changes in the business or in the external environment to help ensure the key assumptions and estimation techniques used to determine best estimate provisions reflect up-to-date information and remain appropriate. As a result of management's review given the current uncertain economic environment, including inflationary increases, and in alignment with IFC practices, reserves have been strengthened during 2021 and additional margin is held.

Refer to note 39 for additional information.

- Measurement of defined benefit obligations: the use of key actuarial assumptions, such as discount rates, inflation rates and mortality rates. Refer to note 41 for additional information.
- Recognition of deferred tax assets: availability of future taxable profits against which deductible temporary differences and tax losses carried forward can be utilised. Forecast future taxable profits include the potential impact of Covid-19 and are based on the continuing Group composition following the disposals of the Canadian and Scandinavian operations. Sensitivities have been used to assess the impact of changes in the key assumptions supporting profit forecasts in the forecast period. Management further assess the application of contingency on the estimation of future forecast taxable profits in determining the value of deferred tax asset to be recognised. Following the acquisition, the UK profit forecasts have been updated to reflect the latest view of taxable profits. Changes to intragroup transactions and increased contingency in the UK forecast taxable profits have resulted in a £83m reduction of the UK deferred tax asset at 31 December 2021. This impact was offset by the effect of the UK tax rate increase on the UK deferred tax asset (£48m). Refer to note 31 for additional information.
- Valuation of level 3 financial assets and investment properties: use of significant unobservable inputs. The current ongoing economic uncertainty means that asset valuation techniques that rely on unobservable inputs have a greater degree of estimation uncertainty. Refer to note 27 for additional information.
- Measurement and impairment of goodwill and intangible assets: key assumptions applied in the valuation of the recoverable amount and the estimation of useful economic life. The value in use calculations are based on management's latest operational plans, which include the potential impact of Covid-19 and are based on the continuing Group composition following the disposals of the Canadian and Scandinavian operations, and considering management's future intent. Refer to note 23 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. Refer to note 27 for additional information.
- Impairment of financial assets: determining if there is objective evidence of impairment requires judgement and, in the year to 31 December 2021, £7m of impairments have been recognised on a continuing operations basis (31 December 2020: £4m). The value of unrealised losses from continuing operations in the revaluation reserve at 31 December 2021 is £121m (31 December 2020: gains of £79m). Refer to note 10 for additional information.
- Valuation of intangible assets: The acquisition has resulted in a strategic reassessment of programme plans for internally generated software assets. Determining if existing internally generated software would no longer generate future economic benefit and should therefore be derecognised requires judgement. In the year to 31 December 2021, £72m of internally generated software assets were identified as no longer generating future economic benefit and were derecognised (12 months to 31 December 2020: £nil). Refer to note 23 for additional information.

The Group Audit Committee reviews the reasonableness of significant judgements and estimates.

3) Adoption of new and revised accounting standards

Transition from EU-adopted IAS to UK-adopted IAS

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

The following narrow scope amendments have been adopted by the Group:

Extension of the Temporary Exemption from Applying IFRS 9

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

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

Interest Rate Benchmark Reform (IBOR) —Phase 2

In August 2020, the IASB issued amendments to IAS 39, IFRS 7 'Financial instruments: Disclosures' (IFRS 7), IFRS 4 and IFRS 16 'Leases' (IFRS 16). The amendments complement those issued in 2019 and focus on the effects on financial statements when an entity replaces an old interest rate benchmark with an alternative risk-free rate (ARRs) as part of the IBOR reform.

The amendments clarify that, if the contractual cash flows of a financial instrument are modified as a result of the reform, an entity updates the effective interest rate to reflect the change instead of derecognising it or adjusting its carrying amount. In addition, hedge accounting relationships shall not be discontinued if changes are required by the reform, as long as the hedge meets other hedge accounting criteria.

The Group's exposure to IBORs (Interbank Offered Rates) that have yet to transition from LIBOR and USD IBOR to Sterling Overnight Index Average (SONIA) and Secured Overnight Financing Rate (SOFR) respectively relates to illiquid investments and is **£155m** (notional amount as at 31 December 2021).

Given the transition to ARRs has no significant impact on the Group, there has been no significant change in the risk management strategies as result of the IBOR reform.

The amendments did not impact the consolidated financial statements.

Other standards

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

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

IFRS 17 'Insurance Contracts'

In May 2017, the IASB published IFRS 17 – Insurance Contracts ("IFRS 17") a comprehensive new accounting standard for insurance contracts covering recognition, measurement, presentation and disclosure, which replaces IFRS 4 – Insurance Contracts ("IFRS 4") and introduces consistent accounting for all insurance contracts.

The original effective date was for annual periods beginning on or after 1 January 2021. However, in June 2020, amendments to the standard were issued and the IASB officially extended the deferral of the effective date and the deferral of the temporary exemption from applying IFRS 9 as provided by IFRS 4 to 1 January 2023. The Group plans to adopt the new standard on the required effective date together with IFRS 9. In July 2021, the IASB issued an exposure draft proposing a narrow-scope amendment to the IFRS 17 transition requirements for entities that first apply IFRS 17 and IFRS 9 at the same time. This proposed amendment relates to financial assets for which comparative information presented on initial application of IFRS 17 and IFRS 9 has not been restated for IFRS 9. Applying the proposed amendment, an entity would be permitted to present comparative information about such a financial asset as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset.

The Group has devoted considerable resources and efforts to the implementation of IFRS 17 since its issuance in May 2017. A program structure was put in place, comprised of a dedicated multi-disciplinary team representing Finance, Actuarial and Information Systems. Strong governance was established to assist program sponsors who report regularly to the IFRS 17 Steering Committee.

The Group has also made progress in developing and testing the technological solutions required for the compliance with IFRS 17 requirements and continues to join discussions with industry groups and other stakeholders regarding the adoption and interpretation of the standard. In 2022, the Group is aiming to monitor changes in regulatory requirements, evaluate the impact on processes and continue the development and testing of the technological solutions.

The Group is currently evaluating the impact that IFRS 17, in conjunction with IFRS 9, will have on its financial statements but has not yet determined the impact.

The standard has not been adopted for use in the UK. On 11 November 2021 the UK Endorsement Board issued for public consultation its draft Endorsement Criteria Assessment: IFRS 17 Insurance Contracts and the Group is monitoring the process closely.

Basis of preparation and significant accounting policies continued

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

IFRS 9 'Financial Instruments'

As outlined in Note 3, the group has deferred the application of IFRS 9 to the reporting period beginning on 1 January 2023, alongside IFRS 17.

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

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

Other standards

There are a number of amendments that have been issued by the IASB that have not yet been adopted for use in the UK. The Group has evaluated the impact of these amendments and none are expected to have a significant impact on the consolidated financial statements.

5) Significant accounting policies

The significant accounting policies used in the preparation of these consolidated financial statements, as set out below, have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise stated.

There have been no significant changes to the Group's accounting policies during 2021. Following the Group's disposals of its operations in Scandinavia and Canada, the policy relating to discontinued operations has been included as a significant accounting policy.

Discontinued operations

A discontinued operation is a component of the Group that has been disposed of and represents a separate major line of business or geographical area of operation.

The profit from discontinued operations is shown separately on the face of the consolidated income statement as a single amount. It comprises the profit or loss after tax from discontinued operations together with the gain or loss after tax recognised on disposal. Further information can be found in note 7.

In the year in which an operation is first classified as discontinued, the consolidated income statement and consolidated statement of other comprehensive income for the comparative prior period is re-presented to present those operations as discontinued.

Where intragroup arrangements between continuing and discontinued operations continue after the point of disposal, the continuing operations are presented as if the income/expense had always been an external party, with the result of the discontinued operation being reduced to offset. Where the arrangement ceased at the point of disposal the income/expense of the continuing operation in relation to the arrangement with the discontinued operation is eliminated.

Premium income

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

Insurance receivables

Premium receivables due from policyholders or intermediaries at the end of the reporting period are presented within insurance and reinsurance debtors in the consolidated statement of financial position. The amount recoverable is reduced when there is an event arising after the initial recognition that provides objective evidence that the Group may not receive all amounts due under the insurance contract. Impairment losses for non-recoverable amounts are charged to underwriting and policy acquisition costs in the consolidated income statement and directly reduce the carrying amount of insurance debtors in the consolidated statement of financial position.

Gross claims incurred and insurance contract liabilities

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

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

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

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

5) Significant accounting policies continued

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

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

Reinsurance

Written premiums ceded to a reinsurer are recognised in the period in which the reinsurance contract is entered into and include estimates where the amounts are not finalised at the end of the reporting period. The ceded written premiums are recognised in the consolidated income statement over the period of the reinsurance contract, based on the expected earning pattern in relation to the underlying insurance contract(s).

Gains or losses on buying retroactive reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised. Premiums ceded and claims reimbursed are presented on a gross basis in the consolidated income statement and statement of financial position as appropriate.

Reinsurers' share of insurance contract liabilities within the consolidated statement of financial position includes the reinsurers' share of provisions for losses and loss adjustment expenses and unearned premiums. The Group reports third party reinsurance balances on the consolidated balance sheet on a gross basis to present the exposure to credit risk related to third party reinsurance. The amount recoverable is reduced when there is an event arising after the initial recognition that provides objective evidence that the Group may not receive all amounts due under the reinsurance contract.

Annuities purchased by the Group to provide for payments under structured settlement arrangements are accounted for as reinsurance ceded and a corresponding reinsurers' share of insurance contract liabilities in cases where the Group remains liable for the settlement in the event of default by the annuity provider. Any gain or loss arising on the purchase of an annuity is recognised in the consolidated income statement at the date of purchase.

Further information can be found in note 29.

Financial Instruments

Classification and measurement of financial assets and financial liabilities

The Group initially recognises financial instruments at their fair value on the date at which they are purchased.

At initial measurement, the Group classifies its financial assets and financial liabilities in one of the following categories:

- Designated at fair value through profit and loss (FVTPL)
- Held for trading
- Available for sale (AFS)
- Cash and cash equivalents
- Loans and receivables
- Financial liabilities
- Derivatives designated as hedging instruments

Transaction costs that are directly attributable to the acquisition of financial assets and financial liabilities that are not FVTPL are added to their fair value in their initial measurement.

Further information can be found in notes 26, 27 and 28.

Basis of preparation and significant accounting policies continued

5) Significant accounting policies continued

The table below summarises the classification and treatment of the Group's financial assets and financial liabilities.

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

5) Significant accounting policies continued

Investment income

Dividends on equity investments are recognised as investment income in the consolidated income statement on the date at which the investment is priced 'ex dividend'. Interest income is recognised in the consolidated income statement using the effective interest rate method.

Unrealised gains and losses on AFS investments are recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary items which are recognised in the consolidated income statement. On derecognition of an investment classified as AFS, the cumulative gain or loss previously recognised in other comprehensive income is recognised in the consolidated income statement. Further information can be found in note 10.

Impairment of financial instruments

The Group determines, at each reporting date, whether there is evidence that the value of a financial asset or a group of financial assets, other than those measured as FVTPL are impaired. A financial asset is impaired if there is objective evidence that indicates that an event has occurred after the initial recognition of the asset that may have resulted in a loss of value as a result of having a negative effect on the estimated future cash flows generated by that asset which can be estimated reliably.

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

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

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

If the fair value of a previously impaired debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed and the reversal recognised in the consolidated income statement. Impairment losses on equity investments are not reversed. Further information can be found in note 10.

When financial assets are impaired by credit losses, the impairment charge directly reduces the carrying amount of the asset.

Current and deferred tax

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

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

Deferred tax is provided in full using the liability method on temporary differences arising between the tax bases of assets and liabilities and the carrying amounts in the consolidated financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting, nor taxable profit or loss, it is not accounted for. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the related deferred tax liability is settled.

Deferred tax in respect of the unremitted earnings of overseas subsidiaries and principal associated undertakings is recognised as an expense in the year in which the profits arise, except where the remittance of earnings can be controlled and it is probable that remittance will not take place in the foreseeable future, in which case the tax charge is recognised on the dividends received.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which unused tax losses and temporary differences can be utilised.

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

Basis of preparation and significant accounting policies continued

5) Significant accounting policies continued

Post-employment benefits and obligations

The Group operates both defined contribution and defined benefit schemes.

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

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

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

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

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

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

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

Intangible assets and Goodwill

Goodwill

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

Customer related intangible assets

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

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

Internally developed and externally acquired software

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

Where no future economic benefits are expected from its use or disposal, the software asset is derecognised. Any gain or loss arising from the derecognition of the asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset and is recognised in profit or loss when the asset is derecognised.

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

5) Significant accounting policies continued

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

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

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

Where the carrying amount is more than the recoverable amount, impairment of goodwill or intangible assets is recognised in the consolidated income statement. Impairment losses previously recognised on other intangible assets may be reversed in subsequent periods provided that the revised carrying amount does not exceed the value that would have been determined (net of amortisation) had no impairment loss been recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Reorganisation, acquisition and integration costs

Reorganisation costs represent external and clearly identifiable internal costs that are necessarily incurred and directly attributable to the Group's restructuring programme that was completed in 2020. The aim of the restructuring programme was to both reduce operating costs and improve profitability.

Acquisition costs represent expenses incurred to effect the acquisition of RSA by Intact Financial Corporation and include restructuring costs incurred prior to the acquisition.

Integration costs represent expenses directly attributable to the integration of the Group into Intact Financial Corporation. They include restructuring costs incurred following the acquisition.

Employee termination costs are only recognised when they are part of a restructuring programme or a detailed plan of redundancies that has been communicated to those affected. Reorganisation, integration or acquisition costs that are uncertain in terms of their amount and timing are included within provisions (see note 42).

Provisions for onerous contracts are recognised when action is taken by the Group as part of a restructuring programme that reduces any remaining benefit expected under a contract to below its remaining unavoidable costs.

Further information can be found in note 13.

Risk and capital management

6) Risk and capital management

Insurance risk

The Group is exposed to risks arising from insurance contracts as set out below:

A) Underwriting risk

B) Reserving risk

A) Underwriting risk

Underwriting risk refers to the risk that claims arising are higher (or lower) than assumed in pricing due to bad experience including catastrophes, weakness in controls over underwriting or portfolio management, claims management issues or policy wording interpretation issues.

The majority of underwriting risk to which the Group is exposed is of a short-term nature, and generally does not exceed 12 months. Annual policies allow the Group to respond to changing weather patterns when managing the global catastrophe risk. 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. The Group's exposure to concentration of Insurance risk in terms of geographical area has been provided in note 9 – Operating segments.

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 claim frequencies and claim severity averages, adjusted for inflation and modelled catastrophes, trended forward to recognise anticipated changes in claim 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. For climate risk exposures, weather peril models and geolocation tools are employed to support sophisticated risk assessments and underwriting of residential and commercial properties.

Passing elements of our insurance risk to reinsurers is another key strategy employed in managing the Group's exposure to insurance risk, including protection against losses from severe weather events (see more details for the catastrophe reinsurance treaty in note 39). 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. This is especially true due to the heightened uncertainty arising through 2020 and 2021 as the direct and indirect impacts of the Covid-19 pandemic evolve. There is also uncertainty in the level of future costs of handling and settling the outstanding claims.

The Group seeks to reduce its reserving risk through the use of experienced, regional actuaries who estimate the actuarial indication of the required reserves based on claims experience, business volume, anticipated change in the claims environment and claims cost. This information is used by local reserving committees to recommend to the newly established UK&I Reserving Committee (formed to replace the former RSA Group Reserving Committee further to the acquisition) 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 UK&I Reserving Committee reviews these local submissions and recommends the final level of reserves to be held by the Group. The UK&I Reserving Committee is chaired by the UK&I Chief Financial Officer and includes the UK&I Chief Executive, UK&I Underwriting Director, UK&I Claims Director, Managing Directors for key business units, UK&I Chief Actuary and UK&I Chief Risk Officer. A similar committee has been established in each of the UK&I's primary operating segments. The UK&I 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:

6) Risk and capital management continued

- The actuarial indication of ultimate losses together with an assessment of risks and possible favourable or adverse developments that may not have been fully reflected in calculating these indications. 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 practice or procedures potentially leading to future claims payment patterns differing from historical experience; the possibility of new types of claim arising either from changes in business mix, or, such as disease claims emerging from historical business; general uncertainty in the claims environment and emerging claims trends; the emergence of latent exposures; the outcome of litigation on claims received; failure to recover reinsurance as the Group expects and unanticipated changes in claims inflation.
- How previous actuarial indications have developed as claims experience has evolved.
- 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 Intact Financial Corporation Group Actuarial Function to assess the reasonableness of regional actuarial indication estimates.
- 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 have observed direct claims, whereas other lines have seen indirect changes in policyholder behaviour such as reduced motor frequency during lockdown which can change the mix of claims.
- Changes in the external claims environment in areas such as legal and medical activities which impact the speed of claims development. The distortions in data caused by the various issues means identification of trends is more difficult than normal. Claims experience may exhibit different characteristics and runoff trends compared to historic experience, resulting in increased uncertainty relating to actuarial indications of ultimate losses.
- Covid-19 claims experience, which continues to be monitored closely and the Group is engaging with its reinsurers as payment and settlement activity grows following the increased clarity brought by the Supreme Court judgment on 15 January 2021. Whilst experience has tracked in line with the Groups expectations to this stage, many key areas of uncertainty remain such as the value of eligible claims and the extent to which reinsurance will ultimately respond compared to how the Group expects. The Company considers and seek legal advice on the implications of all open legal cases and judgments across the industry relating to the interpretation of policy wordings in Covid-19 claims however it may take many months before clarity increases on these gross and reinsurance uncertainties as claims details and consideration of these evolve.
- Given the Covid-19 pandemic and other changes such as Brexit, there is considerable uncertainty in the economic environment beyond 2021, and the potential impacts any changes in the economic environment could have on claims costs, such as inflationary pressure. This is a key uncertainty that is monitored by Reserving Committee with sensitivity testing to monitor, assess and understand potential impacts should the risks manifest.

As a result of the disposal of Codan A/S on 1 June 2021, the Group is no longer exposed to very long-tail liabilities in Scandinavia that are closely tied to the economic, legislative and social environment. The relevant classes of business that fell into this category were Danish Workers Compensation, Swedish Personal Accident, and Swedish Motor annuities. Selling these liabilities has materially reduced the Group's exposure to this type of risk.

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 predominantly investment grade fixed income investment portfolio 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 material investment 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.

Risk and capital management continued

6) Risk and capital management continued

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 credit 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 investment grade 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 the Group's core fixed income investment manager as to the level of exposure to various credit rating categories including unrated securities.

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

The Intact 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 2021 the extent of collateral held by the Group against reinsurers' share of insurance contract liabilities was **£40m** (2020: £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 monitors its aggregate exposures by reinsurer group, being total exposure (as defined in the Reinsurance Risk Management Policy) as a percentage of Intact Financial Corporation's shareholders' equity, the maximum percentages allowed depending on the Reinsurer's financial credit rating. 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 2021 the reinsurance asset recoverable from these groups does not exceed **7.8%** (2020: 3.9%) of the Group's total financial assets. Stress tests are performed by reinsurer counterparty such that in a catastrophic event, the exposure to a single reinsurer is estimated currently to not exceed **£168m**.

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 2021

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	907	1,296	1,345	1,047	218	–	4,813
<i>Of which would qualify as solely for payment of principal and interest (SPPI) under IFRS 9¹</i>	907	1,280	1,333	905	76	–	4,501
Loans and receivables ²	–	–	74	243	42	–	359
Reinsurers' share of insurance contract liabilities	–	590	1,569	67	43	22	2,291
Insurance and reinsurance debtors ³	–	31	871	45	55	825	1,827
Derivative assets	–	–	47	–	–	–	47
Other debtors	–	–	5	9	–	80	94
Cash and cash equivalents	298	–	172	5	4	21	500

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 is not received in accordance with agreed credit terms.

6) Risk and capital management continued

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
<i>Of which would qualify as SPPI under IFRS 9¹</i>	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 is not received in accordance with agreed credit terms.

With the exception of government debt securities, the largest single aggregate credit exposure does not exceed **2%** (2020: 2%) 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 2021

	Note	Financial assets that are past due but not impaired					Carrying value in the statement of financial position £m	Impairment losses charged to the income statement during the year £m
		Neither past due nor impaired £m	Up to three months £m	Three to six months £m	Six months to one year £m	Greater than one year £m		
Debt securities	26	4,813	–	–	–	–	4,813	–
Loans and receivables	26	359	–	–	–	–	359	–
Reinsurers' share of insurance contract liabilities	29	2,291	–	–	–	–	2,291	–
Insurance and reinsurance debtors ^{1, 2}	30	1,827	39	13	14	3	1,916	11
Derivative assets	32	47	–	–	–	–	47	–
Other debtors	32	94	1	2	1	1	99	–
Cash and cash equivalents	33	500	–	–	–	–	500	–

1. Debtors with similar credit risk characteristics are collectively assessed for impairment with provisions being made based on past experience.

Risk and capital management continued

6) Risk and capital management continued

As at 31 December 2020

	Note	Financial assets that are past due but not impaired					Financial assets that have been impaired £m	Carrying value in the statement of financial position £m	Impairment losses charged to the income statement during the year £m
		Neither past due nor impaired £m	Up to three months £m	Three to six months £m	Six months to one year £m	Greater than one year £m			
Debt securities	26	10,698	–	–	–	–	26	10,724	8
Loans and receivables	26	429	–	–	–	–	–	429	–
Reinsurers' share of insurance contract liabilities	29	2,337	–	–	–	–	3	2,340	–
Insurance and reinsurance debtors ^{1, 2}	30	2,842	81	21	17	5	23	2,989	19
Derivative assets	32	125	–	–	–	–	–	125	–
Other debtors	32	178	2	2	3	–	–	185	–
Cash and cash equivalents	33	1,094	–	–	–	–	–	1,094	–

1. Debtors with similar credit risk characteristics are collectively assessed for impairment with provisions being made based on past experience.

2. Included within impairment losses charged in the period is a £10m write off in relation to aged debtors in Sweden.

Market risk

Market risk is the risk of adverse financial impact resulting, directly or indirectly, from fluctuations in 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 remaining international businesses, after the disposal of the Canadian and Scandinavian subsidiaries, through foreign currency risk. Market risk is subject to the Board Risk Committee's risk management framework, which is subject to review and approval by the Board.

Market risk can be broken down into three key components:

i. Equity and property risk

At 31 December 2021 the Group held investments classified as AFS equity securities of **£358m** (2020: £673m). These include interests in structured entities (as disclosed in note 28) and other investments where the price risk arises from interest rate risk rather than from equity market price risk. The Group considers that within AFS equity securities, investments with a fair value of **£245m** (2020: £190m) 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 **£37m** (2020: £29m) 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 **£56m** (2020: £43m) in the income statement and **£3m** (2020: £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 impact as the tax position is affected by other factors, including current year profitability and the ability to recognise deferred tax assets.

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 2021, 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.

6) Risk and capital management continued

Changes in the income statement and other comprehensive income (OCI):

	Increase in income statement		Decrease in other comprehensive income	
	2022 £m	2021 £m	2022 £m	2021 £m
Increase in interest rate markets:				
Impact on fixed income securities and cash of an increase in interest rates of 100bps	14	22	(144)	(440)

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 2022 and 1 January 2021 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.

The analysis on the table above is presented gross of the corresponding tax impact as the tax position is affected by other factors, including current year profitability and the ability to recognise deferred tax assets.

iii. Currency risk

The Group incurs exposure to currency risk as follows:

- 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.

The sale of the Canadian and Scandinavian subsidiaries on 1 June 2021 has simplified the structural currency exposure of the Group, noting the remaining material subsidiaries are exclusively denominated in EUR and USD.

Operational currency risk is principally managed within the Group's individual operations by broadly matching assets and liabilities by currency and liquidity. However, operational currency risk overall 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 2021, the Group's equity attributable to owners of the Parent Company deployed by currency was:

	Pounds Sterling £m	Euro £m	United States Dollar ¹ £m	Other ² £m	Total £m
Equity attributable to owners of the Parent Company at 31 December 2021	2,688	50	181	16	2,935
Equity attributable to owners of the Parent Company at 31 December 2020	2,579	335	204	1,446	4,564

1. United States Dollar equity includes equity denominated in Bahraini Dinar, Omani Rial, Saudi Arabian Riyal and UAE Dirham, currencies which are pegged to the United States Dollar.

2. Other as at 31 December 2020 includes the Danish Krone, Swedish Krona and Canadian Dollar equity in respect of the subsidiaries disposed of on 1 June 2021.

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. Hedging arrangements in place to manage the structural currency risk related to the Group's operations in Scandinavia and Canada have been closed out following the disposals on 1 June 2021.

Risk and capital management continued

6) Risk and capital management continued

The table below illustrates the impact of a hypothetical 10% change in Euro or US Dollar exchange rates on equity attributable to owners of the Parent Company when retranslating into sterling.

	10% strengthening in Pounds Sterling against Euro £m	10% weakening in Pounds Sterling against Euro £m	10% strengthening in Pounds Sterling against US Dollar £m	10% weakening in Pounds Sterling against US Dollar £m
Movement in equity attributable to owners of the Parent Company at 31 December 2021	(5)	6	(16)	20
Movement in equity attributable to owners of the Parent Company at 31 December 2020	(30)	37	(19)	23

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.

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 2021

	Note	Less than one year £m	One to two years £m	Two to three years £m	Three to four years £m	Four to five years £m	Five to ten years £m	Greater than ten years £m	Total £m	Carrying value in the statement of financial position £m
Subordinated guaranteed US\$ bonds ¹	37	–	–	–	–	–	7	–	7	6
Guaranteed subordinated notes due 2045 ¹	37	–	–	–	160	–	–	–	160	159
Provisions for losses and loss adjustment expenses	39	2,381	920	545	302	195	400	533	5,276	5,276
Direct insurance creditors	40	78	1	–	–	–	–	–	79	79
Reinsurance creditors	40	526	180	57	–	–	–	–	763	763
Borrowings	38	8	–	–	–	–	–	–	8	8
Derivative liabilities	43	9	–	2	3	1	5	38	58	58
Lease liabilities ¹	43	12	10	8	7	4	11	10	62	55
Total		3,014	1,111	612	472	200	423	581	6,413	6,404
Interest on bonds and notes		9	9	9	7	1	2	–	37	

1. Maturity profile shown on an undiscounted basis.

6) Risk and capital management continued

As at 31 December 2020

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

1. Maturity profile shown on an undiscounted basis.

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

The capital and interest payable on the bonds and notes have been included until the earliest dates on which the Group has the option to call the instruments and the interest rates are reset. For further information on terms of the bonds and notes, see note 37.

Pension risk

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

Capital management

It is a key regulatory requirement that the Group maintains sufficient capital to support its exposure to risk. Accordingly, the Group's capital management strategy is closely linked to its monitoring and management of risk. The Group's capital objectives consist of striking the right balance between the need to support claims liabilities and ensure the confidence of policyholders, exposure to other risks, support competitive pricing strategies, meet regulatory capital requirements, and providing adequate returns for its shareholder.

The Group's overall capital position is primarily comprised of shareholders' equity and subordinated loan capital and aims to maximise shareholder value, while maintaining financial strength and adequate regulatory capital. In addition, the Group aims to hold sufficient capital so as to maintain its single 'A' credit rating.

The Group holds an appropriate level of capital to satisfy all applicable regulations. Compliance with regulatory requirements is embedded within the Board Risk Committee mandate, for the protection of the Group's policyholders and the continuation of the Group's ability to underwrite.

Regulatory solvency position during 2021

The Group operates a Prudential Regulation Authority (PRA) approved Solvency II Internal Model which forms the basis of the primary Solvency II solvency capital ratio (SCR) measure. The internal model is used to support, inform and improve the Group's decision making. It is used to inform the Group's optimum capital structure, its investment strategy, its reinsurance programme and target returns for each portfolio.

Following the acquisition of the Group by Regent Bidco Limited on 1 June 2021, RSA Insurance Group Limited is no longer subject to regulatory supervision and reporting, however its principal operating subsidiary, Royal & Sun Alliance Insurance Limited (RSAI) continues to be regulated and is deemed to be equivalent from a risk perspective and therefore is used to provide details of the Group's regulatory capital position.

As at 31 December 2021, RSAI's unaudited estimated coverage of its Solvency II SCR is approximately **1.8 times** (31 December 2020: 2.0 times).

Risk and capital management continued

6) Risk and capital management continued

Movement in tangible net asset value (TNAV)

TNAV is one of many capital metrics used by the Group and reconciles to IFRS net assets as follows:

	2021 £m	2020 £m
Equity attributable to owners of the Parent Company at 31 December	2,935	4,564
Less: tier 1 notes	(297)	(297)
Less: preference share capital	(125)	(125)
Less: goodwill and intangibles	(312)	(868)
TNAV at 31 December	2,201	3,274

The key movements in TNAV are as follows:

	2021 £m	2020 £m
As at 1 January	3,274	2,910
Profit after tax ¹	4,328	446
Exchange gains net of tax	34	50
Fair value gains net of tax	(261)	97
Pension fund losses net of tax	(58)	(25)
Dividends ²	(6,938)	(108)
Goodwill and intangible additions and disposals	489	(121)
Share issue	1,305	6
Share-based payments	28	19
As at 31 December	2,201	3,274

1. Profit after tax excludes amortisation and impairment of intangible assets.

2. Refer to note 21.

Own risk and solvency assessment (ORSA)

The Solvency II directive introduced a requirement for undertakings to conduct an ORSA.

The Group defines its ORSA as a series of interrelated activities by which it establishes:

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

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

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

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

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

The ORSA report was delivered to the Board in November 2021, considering the 30 June, 2021 balance sheet position and the impact of the 2022-24 operational plan on forecast capital positions. The report outlines the participation in the 2021 Bank of England Climate stress testing exercise, with an assessment of the climate-associated physical, litigation and asset risks. The ORSA process during this cycle continues to demonstrate ongoing balance sheet strength and balance sheet resilience.

Significant transactions and events

7) Discontinued operations

On 1 June 2021, the Group disposed of its operations in Scandinavia and Canada, in return for consideration in the form of on demand loan notes issued by IFC. These have been classified as discontinued operations in the consolidated income statement and consolidated statement of comprehensive income, and the comparatives have been re-presented on this basis.

Income statement of discontinued operations

For the year ended 31 December 2021

	2021 £m	2020 £m
Income		
Gross written premiums	1,269	3,294
Less: reinsurance written premiums	(88)	(109)
Net written premiums	1,181	3,185
Change in the gross provision for unearned premiums	(97)	(23)
Change in provision for unearned reinsurance premiums	39	4
Change in provision for net unearned premiums	(58)	(19)
Net earned premiums	1,123	3,166
Net investment return	65	107
Other operating income	15	37
Total income	1,203	3,310
Expenses		
Gross claims incurred	(711)	(1,994)
Less: claims recoveries from reinsurers	2	24
Net claims	(709)	(1,970)
Underwriting and policy acquisition costs	(297)	(767)
Unwind of discount and change in economic assumptions	(10)	(32)
Other operating expenses	(21)	(37)
	(1,037)	(2,806)
Finance costs	(1)	(3)
Profit/(loss) on disposal of business	2	(1)
Profit before tax from operating activities	167	500
Income tax expense	(29)	(117)
Profit after tax from operating activities	138	383
Gain on disposal of discontinued operation	4,393	–
Profit after tax from discontinued operation	4,531	383
Attributable to:		
Owners of the Parent Company	4,531	383
Non-controlling interests	–	–
	4,531	383

Significant transactions and events continued

7) Discontinued operations continued

Statement of comprehensive income of discontinued operations

For the year ended 31 December 2021

	2021 £m	2020 £m
Profit for the period	4,531	383
Items that may be reclassified to the income statement:		
Exchange gains net of tax on translation of foreign operations	42	60
Fair value (losses)/gains on available for sale financial assets net of tax	(183)	19
	(141)	79
Items that will not be reclassified to the income statement:		
Pension – remeasurement of defined benefit asset/liability net of tax	12	–
Total other comprehensive (expense)/income for the period	(129)	79
Total comprehensive income for the period	4,402	462
Attributable to:		
Owners of the Parent Company	4,402	462
Non-controlling interests	–	–
	4,402	462

Cash flows from discontinued operations

For the year ended 31 December 2021

	2021 £m	2020 £m
Net cash flows from operating activities	53	187
Net cash flows from investing activities	6,565	(25)
Net cash flows from financing activities	(81)	(115)
Net increase in cash and cash equivalents	6,537	47

7) Discontinued operations continued

Gain on disposal of discontinued operations

	2021 £m
Consideration	6,916
Net assets disposed of:	
Goodwill and other intangible assets	521
Property and equipment	123
Investments in associates	4
Financial assets	6,603
Reinsurers' share of insurance contract liabilities	1,073
Insurance and reinsurance debtors	1,194
Deferred tax assets	18
Current tax assets	47
Other debtors and other assets	182
Cash and cash equivalents	357
Total assets	10,122
Insurance contract liabilities	6,659
Insurance and reinsurance liabilities	159
Borrowings	46
Deferred tax liabilities	79
Current tax liabilities	16
Provisions	91
Other liabilities	502
Total liabilities	7,552
Total net assets disposed of	2,570
Net assets disposed of attributable to non-controlling interests	(2)
Net assets disposed of attributable to owners of the Parent Company	2,568
Gain on disposal of discontinued operation before recycling of items from other comprehensive income	4,348
Gains/(losses) recycled to income statement:	
Fair value gains on available for sale financial assets	114
Exchange losses on translation of foreign operations	(69)
Total gains recycled to income statement	45
Gain on disposal of discontinued operation	4,393

8) Loss on disposal of businesses

In 2020, the loss of £5m from continuing operations is from the sale of the Group's 57.1% holding in British Aviation Insurance Company Limited. Total loss on disposal of businesses for 2020 was £6m inclusive of continued and discontinued operations, with a loss of £1m from discontinued operations.

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

9) Operating segments

The Group's primary operating segments comprise UK, International and Central Functions. Canada and Scandinavia are shown as discontinued operations following the disposal of these operations. The primary operating segments are based on geography and are all engaged in providing personal and commercial general insurance services. International comprises of all other operating segments based in Ireland, Europe and Middle East, which individually do not meet the criteria of a reportable segment. Central Functions include the Group's internal reinsurance function and Group Corporate Centre.

The basis of the segmental disclosure has been reassessed following the acquisition of the Group and the disposal of the Group's operations in Scandinavia and Canada, with UK and International now shown separately.

Each operating segment is managed by individuals who are accountable to the Group Chief Executive and the Group 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. As explained in note 5, where intragroup arrangements between continuing and discontinued operations continue after the disposal, the continuing operations are presented as if the income/expense had always been an external party, with the result of the discontinued operation being reduced to offset.

Assessing segment performance

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

- Net written premiums
- Underwriting result

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

Underwriting result is the key internal measure of profitability of the operating segments. It is an alternative performance measure (APM), defined within the Jargon Buster and reconciled to the nearest IFRS measure in appendix D.

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 2021

	UK £m	International £m	Central Functions £m	Total continuing operations £m	Discontinued operations £m	Total Group £m
Net written premiums	2,060	690	543	3,293	1,181	4,474
Underwriting result	(98)	58	(97)	(137)	134	(3)
Investment result				110	37	147
Central costs and other activities				(11)	–	(11)
Business operating result				(38)	171	133
Realised (losses)/gains				(2)	9	7
Unrealised gains, impairments of investments and foreign exchange				21	2	23
Finance costs (note 14)				(76)	(1)	(77)
Amortisation of intangible assets (note 13/23)				–	(2)	(2)
Pension net interest and administration costs (note 12/41)				3	(1)	2
Integration, acquisition and reorganisation costs (note 13)				(136)	(13)	(149)
Gain on disposal of business				–	4,395	4,395
(Loss)/profit before tax				(228)	4,560	4,332
Tax on operations (note 19)				(33)	(29)	(62)
(Loss)/profit after tax				(261)	4,531	4,270

9) Operating segments continued

Year ended 31 December 2020

	Re-presented ¹					
	UK £m	International £m	Central Functions £m	Total continuing operations £m	Discontinued operations £m	Total Group £m
Net written premiums	2,034	697	307	3,038	3,185	6,223
Underwriting result	(38)	80	(9)	33	469	502
Investment result				110	103	213
Central costs and other activities				(12)	–	(12)
Business operating result				131	572	703
Realised gains				–	6	6
Unrealised losses, impairments of investments and foreign exchange				(23)	(40)	(63)
Finance costs (note 14)				(30)	(3)	(33)
Amortisation of intangible assets (note 13/23)				(2)	(9)	(11)
Impairment of goodwill (note 23)				–	(14)	(14)
Pension net interest and administration costs (note 12/41)				4	(3)	1
Integration, acquisition and reorganisation costs (note 13)				(92)	–	(92)
Change in economic assumptions (note 39)				–	(8)	(8)
Loss on disposal of businesses (note 8)				(5)	(1)	(6)
(Loss)/profit before tax				(17)	500	483
Tax on operations (note 19)				(2)	(117)	(119)
(Loss)/profit after tax				(19)	383	364

1. Comparatives have been re-presented to show Scandinavia and Canada as discontinued operations (see note 7 for further information) and for the new segmental basis explained above, with UK shown separately from International.

Non current assets by geographical area

Non current assets represent goodwill and intangible assets, property and equipment, investment property and prepayments with an expected maturity of greater than 12 months.

	2021 £m	2020 £m
UK	698	646
International	91	101
Continuing operations	789	747
Discontinued operations	–	653
Total Group	789	1,400

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

10) Net investment return

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

	Investment income		Net realised gains/(losses)		Net unrealised losses		Impairments		Total investment return	
	2021 £m	2020 £m	2021 £m	2020 £m	2021 £m	2020 £m	2021 £m	2020 £m	2021 £m	2020 £m
Investment property	17	17	–	3	45	(8)	–	–	62	12
Equity securities										
Available for sale	6	5	3	1	–	–	(7)	(4)	2	2
Debt securities										
Available for sale	86	93	(2)	1	–	–	–	–	84	94
At FVTPL	–	–	–	–	(12)	(3)	–	–	(12)	(3)
Other loans and receivables										
Loans secured by mortgages	–	1	–	–	–	–	–	–	–	1
Other loans	28	8	–	–	–	–	–	–	28	8
Deposits, cash and cash equivalents	–	1	–	–	–	–	–	–	–	1
Derivatives	–	–	(1)	(5)	(3)	–	–	–	(4)	(5)
Other	2	–	(2)	–	–	–	–	–	–	–
Total from continuing operations	139	125	(2)	–	30	(11)	(7)	(4)	160	110

Direct operating expenses (including repairs and maintenance) arising from investment properties were not material in 2021 or 2020.

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	
	2021 £m	2020 £m	2021 £m	2020 £m	2021 £m	2020 £m	2021 £m	2020 £m
Equity securities	5	(6)	(3)	(1)	7	4	9	(3)
Debt securities	(135)	83	2	(1)	–	–	(133)	82
Other	–	–	3	–	–	–	3	–
Total from continuing operations	(130)	77	2	(2)	7	4	(121)	79

11) Net claims

	2021 £m	2020 £m
Gross claims paid ¹	2,358	2,215
Gross changes in provision for losses and loss adjustment expenses	601	312
Reinsurance recoveries on claims paid ²	(440)	(314)
Reinsurers' share of changes in provision for losses and loss adjustment expenses	(319)	(293)
Total net claims from continuing operations	2,200	1,920

1. Gross claims paid inclusive of continuing and discontinued operations totals **£3,189m** (2020: £4,556m) (note 39).

2. Reinsurance recoveries on claims paid inclusive of continuing and discontinued operations totals **£558m** (2020: £594m) (note 29).

12) Other operating income

	2021 £m	2020 £m
Administration fee income	5	7
Instalment policy fee income	16	21
Introductory commissions	7	8
Service income	8	7
Other fees	43	46
Pension net interest and administration expenses (note 9/41)	3	4
Total other operating income from continuing operations	82	93

13) Other operating expenses

	2021 £m	2020 £m
Administration and other expenses	11	13
Investment expenses and charges	23	8
Amortisation of intangible assets (note 9/23)	–	2
Reorganisation costs ¹	–	78
Acquisition costs ²	96	14
Integration costs ³	40	–
Foreign exchange loss	2	8
Total other operating expenses from continuing operations	172	123

1. The UK restructuring programme was completed in 2020. The £78m incurred in 2020 were unrelated to the acquisition of RSA by Intact Financial Corporation and included £29m in respect of redundancy, £17m information systems outsourcing rationalisation, £16m reduction in premises footprint and £16m other restructuring activity.

2. Acquisition costs represent expenses incurred to effect the acquisition and include restructuring costs incurred before the acquisition.

3. Integration costs are expenses that are directly attributable to the integration of the Group with Intact Finance Corporation, following the acquisition of the Group on 1 June. The majority of the integration costs are expected to be incurred by the end of 2022, with a limited amount expected to be recognised in the consolidated income statement in 2023.

14) Finance costs

	2021 £m	2020 £m
Interest expense on issued debt	21	27
Interest on lease liabilities	2	3
Premium on debt buy back ¹	53	–
Total finance costs from continuing operations	76	30

1. During the year the Group repurchased £240m loan capital and £350m senior notes, on which premiums were paid for early redemption of £37m and £16m respectively. Refer to note 37 for further information.

15) Employee expenses

Staff costs for all employees¹ comprise:

	2021 £m	2020 ² £m
Wages and salaries	405	616
Redundancy costs	10	45
Social security costs	55	86
Pension costs	49	73
Share-based payments to directors and employees	30	19
Total staff costs	549	839

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

	2021	2020
UK	4,929	5,427
International	1,239	1,291
Continuing operations	6,168	6,718
Discontinued operations	2,425	5,904
Total average number of employees during the year	8,593	12,622

1. Total staff costs include costs related to employees from the Scandinavian and Canadian operations for the first five months of the year up to the point of the acquisition.

2. 2020 comparatives have been restated to include redundancy costs that were not included, and to split out redundancy costs that were included in wages and salaries, in the figures disclosed in the 2020 annual report and accounts.

Further information on pension obligations of the Group can be found in note 41. Further information on employee share schemes can be found in note 20.

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

16) Directors' emoluments

The aggregate emoluments of the Company's directors' were as follows:

	2021 £000	2020 £000
Short term benefits (salaries, bonuses, allowances and other benefits)	7,147	6,760
Compensation for loss of office	6	–
Total	7,153	6,760

The criteria for making bonus awards is based on targeted levels of business sector profit and specific business objectives.

During 2021, no retirement benefits were accrued under defined benefit pension schemes for any directors (2020: £nil), and no contributions were made to defined contribution pension schemes (2020: £4,813 in respect of one director).

During 2021, no directors (2020: no directors) exercised share options, three directors (2020: three directors) had share awards vesting under long term incentive schemes in respect of ordinary shares of the Company, and two non-executive directors (2020: none) had Deferred Share Units (DSUs) vesting in the Group's ultimate parent company, Intact Financial Corporation (IFC), as part of their fee for their role on the IFC Board of Directors. The DSUs are redeemed upon director retirement or termination and are settled for cash afterwards.

The emoluments of the highest paid director were:

	2021 £000	2020 £000
Short term benefits and compensation for loss of office	2,646	3,047

During 2021, no retirement benefits were accrued under defined benefit pension schemes (2020: £nil) and no contributions were made to defined contribution schemes (2020: £nil) in respect of the highest paid director.

During 2021 and 2020, the highest paid director had share awards vesting under long term incentive schemes in respect of ordinary shares of the Company.

17) Related party transactions

Transactions with parent company

The Group's parent company is Regent Bidco Limited, a wholly owned subsidiary of Intact Financial Corporation, the ultimate controlling party.

During the year ended 31 December 2021, the following related party transactions have taken place with Regent Bidco Limited:

- Upon acquisition, the Group received a capital injection from Regent Bidco Limited of **£1,021m**
- The Group received a further capital injection from Regent Bidco Limited of **£275m** in September to fund the repurchase of its Guaranteed subordinated notes (Tier 2 notes) with a par value of **£240m** for a total cost of **£275m**.
- Ordinary dividends paid to Regent Bidco Limited of **£6,914m**

Other related party transactions

The Group has a reinsurance arrangement with Unifund Assurance Company (Unifund), a member of the Intact Financial Corporation Group. Under the terms of the arrangement the insurance risk of Unifund's business is transferred to the Group. The Group pays a reinsurance commission in relation to the quota share agreement and the agreement covers Unifund's existing insurance liabilities and new written premium for all lines of business at a rate of 60%. This transaction became a related party transaction on 1 June following the disposal of Roins Holdings Limited. The outstanding balances are secured against collateral assets, made up of assets held in trust and a letter of credit.

The Group also has other reinsurance arrangements (some of which are secured against collateral assets) and transactions with Roins Holdings Limited and other entities that are part of the Intact Financial Corporation Group, including its associates.

The amounts relating to the above related party transactions included in the consolidated income statement for the year ended 31 December 2021, the consolidated statement of financial position as at 31 December 2021, and the collateral pledged, are provided in the table below.

	2021 £m
Income	253
Expenses	184
Assets	103
Liabilities	734
Collateral pledged	882

The amounts outstanding are expected to be settled in cash or offset against other outstanding balances where possible. No provisions have been made for doubtful debts on any of the amounts owed by related parties.

17) Related party transactions continued**Compensation of key management personnel**

Key management personnel comprise members of the Company's Executive Committee, executive directors, and non-executive directors. The compensation of key management personnel is set out below.

The Executive Committee members changed after the acquisition. The figures below for 2021 include a mix of the previous and current members, time apportioned for the periods when they were members of the committee.

Key management personnel compensation

	2021 £m	2020 £m
Short term employee benefits (salaries, bonuses, allowances and other benefits)	15	13
Termination benefits	2	–
Share-based awards	12	7
Total	29	20

Key management personnel transactions

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

18) Auditor's remuneration

	2021 £m	2020 £m
Fees payable to the auditor for audit of the Company's annual accounts	2.0	1.4
Fees payable to the auditor and its associates for other services:		
The audit of the Company's subsidiaries, pursuant to legislation ¹	4.5	5.5
Additional audit performed during the year ²	5.2	–
Non-audit services:		
Audit related assurance services ^{1,3}	2.9	1.6
Total auditor's remuneration	14.6	8.5

1. The above items included audit fees, audit assurance and other services for the Scandinavian and Canadian entities that have been disposed of during the year.
2. The additional audit performed during the year relates to the audit of the consolidated statement of financial position as at the date of the acquisition of RSA for the purpose of the IFC group financial reporting and audit.
3. Included in the Audit related assurance services for 2021 is **£0.9m** (2020: £0.9m) of assurance work in respect of Solvency II reporting. The remainder of **£2.0m** (2020: £0.7m) represents in aggregate **18%** (2020: 11%) of the Group IFRS audit fee of **£11.7m** (2020: £6.9m).

19) Income tax

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

	2021 £m	2020 £m
Current tax:		
Charge for the year	10	11
Adjustments in respect of prior years	1	1
Total current tax	11	12
Deferred tax:		
Charge/(credit) for the year	24	(8)
Adjustments in respect of prior years	(2)	(2)
Total deferred tax	22	(10)
Total tax charged to income statement attributable to continuing operations	33	2

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

19) Income tax continued

Reconciliation of the income tax expense

	2021 £m	2020 £m
Loss before tax from continuing operations	(228)	(17)
Tax at the UK rate of 19.0% (2020: 19.0%)	(43)	(4)
Tax effect of:		
Income/gains not taxable (or taxed at lower rate)	1	(2)
Expenses not deductible for tax purposes	11	5
Non-taxable loss on sale of subsidiaries	–	1
Impairment of goodwill and amortisation of intangibles	–	1
Increase of current tax in respect of prior periods	1	1
Decrease of deferred tax in respect of prior periods	(2)	(2)
Derecognition of prior year deferred tax assets	72	12
Non-recognition of current year deferred tax assets	53	11
Different tax rates of subsidiaries operating in other jurisdictions	(9)	(3)
Withholding tax on dividends and interest from subsidiaries	2	4
Effect of change in tax rates	(50)	(21)
Deductible Restricted Tier 1 coupon in equity	(3)	(3)
Other	–	2
Income tax expense attributable to continuing operations	33	2
Effective tax rate	(15)%	(14)%

The main drivers of the Group's tax charge (and negative effective tax rate) for the continuing operations for the year ended 31 December 2021 are as follows:

- The Group made a loss for tax purposes in the period to 31 December 2021 on its continuing UK operations of **£279m**. These tax losses have not been recognised for deferred tax purposes due to insufficient future taxable profits (see note 31 for further detail). The tax loss includes the impact of non-deductible expenses predominantly related to the acquisition of the Group **£86m**. The tax impact of the unrecognised losses in the income statement is an increased tax charge of **£53m**.
- In May 2021, the change in the UK tax rate from 19% to 25% from 1 April 2023 was substantively enacted. The change in tax rate increased the valuation of the Group's UK deferred tax assets, which has been reflected in the period to 31 December 2021. In addition, the UK deferred tax asset was partially derecognised in the period to 31 December 2021 following the latest view of taxable profits post the acquisition (see note 31 for further detail). The combined impact of the tax rate change and derecognition on the deferred tax asset reported in the consolidated income statement is a **£22m** charge.
- The impact of the above was offset by the impact of lower tax rates in Ireland and the Middle East (**£9m** tax benefit).

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

	Current Tax		Deferred Tax		Total	
	2021 £m	2020 £m	2021 £m	2020 £m	2021 £m	2020 £m
Exchange gains and losses	(1)	–	–	–	(1)	–
Fair value gains and losses	(2)	–	36	10	34	10
Remeasurement of net defined benefit pension liability	1	2	(48)	(19)	(47)	(17)
Total (charged)/credited to OCI from continuing operations	(2)	2	(12)	(9)	(14)	(7)

19) Income tax continued

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** (2020: £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** (2020: 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 largest jurisdictions in which the Group operates.

	2021		2020	
	Current Tax	Deferred Tax	Current Tax	Deferred Tax
UK	19.0%	24.0%	19.0%	19.0%
Ireland	12.5%	12.5%	12.5%	12.5%

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

In May 2021, the change in the UK tax rate from 19% to 25% from 1 April 2023 was substantively enacted. This change impacts the UK deferred tax rate. A 24% deferred tax rate results from the expected unwind pattern of the UK temporary differences.

20) Share-based payments

The total amount included within staff costs in the consolidated income statement in respect of all share scheme plans in 2021 is set out below.

Analysis of share scheme costs:

	2021 £m	2020 £m
Performance share plan (PSP) – RSA shares	18	13
Save as you earn (SAYE) – RSA shares	3	2
Long term incentive plan (LTIP) – Intact shares	2	–
Total from continuing operations	23	15

Analysis of new award costs:

	2021		2020	
	Charge for year £m	Total value granted £m	Charge for year £m	Total value granted £m
PSP – RSA shares	4	4	5	10
SAYE – RSA shares	–	–	–	2
LTIP – Intact shares	2	8	–	–
SAYE – Intact shares	–	4	–	–
Total from continuing operations	6	16	5	12

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

For the year ended 31 December 2021 **510,820** share awards under the RSA Performance Share Plan were granted to employees in continuing operations. The weighted-average fair value of the share awards at the grant date was **£6.77**, amounting to a total of **£4m**.

For the year ended 31 December 2021 **86,420** share awards under the Intact Long term Incentive Plan were granted to employees in continuing operations. The weighted-average fair value of the share awards at the grant date was **C\$161.67**, amounting to a total of **£8m**.

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

20) Share-based payments continued

Performance Share Plan RSA Shares

This plan was the Group's Long-Term Incentive Plan until the completion of the takeover on 1 June 2021. Awards of Performance Shares to executive directors and other selected executives and senior managers were subject to performance conditions. These consisted of the Group's underlying return on tangible equity; relative total shareholder return; and business scorecard targets over a three year performance period. Typically awards vested on the third anniversary of the date of grant to the extent that the performance conditions had been met, with a two-year retention period in the case of Executive Directors' Performance Shares. All PSP awards vested or lapsed on 25 May 2021 as a result of the takeover of the Group.

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

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

If an employee resigned from the Group, then Performance Shares and Restricted Shares lapsed at the date of leaving the Group. Deferred Bonus Share awards were generally retained by the employee to whom the award was granted if they left the Group, unless the employee was dismissed for cause. Awards retained vested on the normal vesting date.

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

The Group had the obligation to settle the liabilities for the PSP and therefore it was accounted for as an equity-settled plan as awards were granted over the Group's shares.

Save as you earn RSA Shares

SAYE was a Group all-employee plan until the completion of the takeover on 1 June 2021. Employees were able to elect to make monthly savings for a period of three years. In exchange, employees were granted an option to buy ordinary shares in the Group at the end of the savings period, with a pre-set option price – typically at a 20% discount. This plan gave tax advantages to participants from the UK. The SAYE scheme using RSA shares ended as a result of the completion of the takeover transaction. Participants could exercise their SAYE options early at completion of the takeover transaction to the extent of their accrued savings; or continue to save for up to 6 months following the takeover and then exercise their options.

The Group had accounted for the SAYE scheme as an equity-settled plan as awards were granted over the Group's own shares.

Long-term incentive plan Intact shares

Since 1 June 2021, this plan has replaced the PSP. Executive directors, other selected executives and senior managers are eligible to participate in the LTIP to enable them to own shares in the ultimate parent company, Intact Financial Corporation. Participants are awarded notional share units referred to as Performance Stock Units (PSUs) and Restricted Stock Units (RSUs). The PSU pay out is subject to the achievement of specific targets with regards to:

- Intact Financial Corporation's estimated ROE outperformance versus an industry benchmark, based on a three-year average; or
- The three-year average combined ratio of the UK & International operations compared to a specific target.

RSUs ordinarily vest three years from the year of the grant. Vesting for RSUs is not linked to the Group's performance.

If an employee resigns from the Group, then unvested PSUs and RSUs lapse at the date of leaving the Group.

For Executive Directors and other specified roles, the Remuneration Committee defers a portion of an individual's gross bonus into an award over RSUs, which are also not subject to performance conditions.

Shares are purchased in the market to settle the awards.

The awards are initially estimated and valued at fair value on the grant date, which corresponds, for 2021, to the average share price of Intact Financial Corporation from 6 May to 31 May 2021.

As the Group has the obligation to settle the liabilities of LTIP awards, which grant rights to receive shares in the ultimate parent company, Intact Financial Corporation, it is accounted for as a cash-settled plan. This means the cost of the awards is recognised as an expense over the vesting period and the liability is remeasured at each reporting period based on the number of awards that are expected to vest and the current share price, with any fluctuations in the liability also recorded as an expense until it is settled.

Save as you earn Intact Shares

Since 1 June 2021, this plan has replaced the SAYE using RSA shares. The terms for SAYE 2021 remain the same as for SAYE, except that employee are granted an option to buy shares in the ultimate parent company, Intact Financial Corporation, at the end of the savings period. Therefore, as the Group has the obligation to settle the liabilities of SAYE 2021 awards, it is accounted for as a cash-settled plan on the same basis as the Long-term incentive plan Intact shares.

21) Dividends paid and proposed

	2021 £m	2020 £m
Ordinary dividend	6,914	83
Preference dividend	9	9
Tier 1 notes coupon payment	15	16
	6,938	108

Following the acquisition, the Group disposed of its operations in Scandinavia and Canada, as disclosed in note 7 in exchange for interest bearing demand notes, which were considered highly liquid financial instruments, classified as cash equivalents. Those demand notes were subsequently used to settle dividends of **£6,914m** (dividends in specie) paid to Regent Bidco Limited. Therefore, the settlement of the dividends in specie is a cash transaction presented as a cash outflow in the cash flow statement within financing activities.

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.

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

22) Total other comprehensive income

Year ended 31 December 2021

	Total revaluation reserves £m	Foreign currency translation reserve £m	Retained earnings £m	Equity attributable to owners of the Parent Company £m	Non- controlling interests £m	Total equity £m
Exchange (losses)/gains net of tax	–	(15)	–	(15)	1	(14)
Fair value losses net of tax	(78)	–	–	(78)	(1)	(79)
Pension – remeasurement of net defined benefit asset/liability net of tax	–	–	(70)	(70)	–	(70)
Continuing operations	(78)	(15)	(70)	(163)	–	(163)
Discontinued operations	(189)	48	12	(129)	–	(129)
Total other comprehensive (expense)/income for the year	(267)	33	(58)	(292)	–	(292)

Year ended 31 December 2020

	Total revaluation reserves £m	Foreign currency translation reserve £m	Retained earnings £m	Equity attributable to owners of the Parent Company £m	Non- controlling interests £m	Total equity £m
Exchange (losses)/gains net of tax	(1)	2	–	1	(6)	(5)
Fair value gains net of tax	78	–	–	78	1	79
Pension – remeasurement of net defined benefit asset/liability net of tax	–	–	(25)	(25)	–	(25)
Continuing operations	77	2	(25)	54	(5)	49
Discontinued operations	35	44	–	79	–	79
Total other comprehensive income/(expense) for the year	112	46	(25)	133	(5)	128

Notes to the consolidated statement of financial position

23) Goodwill and intangible assets

	Goodwill £m	Intangible assets arising from acquired claims provisions £m	Externally acquired software £m	Internally generated software £m	Customer related intangibles ¹ £m	Total £m
Cost						
At 1 January 2021	422	118	81	1,063	246	1,930
Additions	–	–	1	96	7	104
Disposal of subsidiaries ²	(315)	(113)	(3)	(488)	(209)	(1,128)
Derecognised ³	–	–	–	(103)	(33)	(136)
Exchange adjustment	(8)	(4)	–	(10)	2	(20)
At 31 December 2021	99	1	79	558	13	750
Accumulated amortisation						
At 1 January 2021	–	118	78	509	206	911
Amortisation charge	–	–	1	55	4	60
Amortisation on disposals of subsidiaries ²	–	(113)	(3)	(256)	(169)	(541)
Amortisation on derecognition ³	–	–	–	(14)	(30)	(44)
Exchange adjustment	–	(4)	–	(5)	1	(8)
At 31 December 2021	–	1	76	289	12	378
Accumulated impairment						
At 1 January 2021	92	–	–	55	4	151
Impairment on disposals of subsidiaries ²	(28)	–	–	(37)	(1)	(66)
Impairment on derecognition ³	–	–	–	(17)	(3)	(20)
Exchange adjustment	(4)	–	–	(1)	–	(5)
At 31 December 2021	60	–	–	–	–	60
Carrying amount at 31 December 2021	39	–	3	269	1	312

1. Customer related intangibles includes customer lists and renewal rights.

2. The disposal of the Group's operations in Scandinavia and Canada has reduced goodwill and other intangible assets by **£521m** in the year. Refer to note 7 for further detail.

3. The acquisition has resulted in a strategic reassessment of programme plans for certain internally generated software assets and as a result certain assets were identified for which there are no future economic benefits expected. As a result of this the Company has derecognised assets with a net book value of **£72m**, with the cost recognised in Underwriting and policy acquisition costs.

23) Goodwill and intangible assets continued

	Goodwill £m	Intangible assets arising from acquired claims provisions £m	Externally acquired software £m	Internally generated software £m	Customer related intangibles £m	Total £m
Cost						
At 1 January 2020	412	126	80	931	266	1,815
Additions	–	–	1	119	2	122
Disposals	–	(15)	–	(1)	(21)	(37)
Exchange adjustment	10	7	–	14	(1)	30
At 31 December 2020	422	118	81	1,063	246	1,930
Accumulated amortisation						
At 1 January 2020	–	126	77	434	211	848
Amortisation charge	–	–	1	68	16	85
Amortisation on disposals	–	(15)	–	–	(20)	(35)
Exchange adjustment	–	7	–	7	(1)	13
At 31 December 2020	–	118	78	509	206	911
Accumulated impairment						
At 1 January 2020	75	–	–	51	4	130
Impairment charge	14	–	–	1	–	15
Exchange adjustment	3	–	–	3	–	6
At 31 December 2020	92	–	–	55	4	151
Carrying amount at 31 December 2020	330	–	3	499	36	868

The carrying value of intangible assets not yet available for use at 31 December 2021 is **£99m** (31 December 2020: £188m). This primarily relates to the implementation of strategic software assets in the UK and Ireland (2020 also included Canada and Scandinavia).

The aggregate amount of research and development expenditure recognised as an expense during the period was **£1m** (2020: nil).

Amortisation

Amortisation expense of **£58m** (2020: £74m) has been charged to underwriting and policy acquisition costs with the remainder recognised in other operating expenses.

Impairments

The disposal of subsidiaries as detailed above, were in respect of the Canadian and Scandinavian CGUs. There have been no other changes to the CGU's recognised by the Group.

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

The value in use calculation uses cash flow projections based on operational plans approved by management covering a three year period. The operational plans use best estimates of future premiums, operating expenses and taxes using historical trends, general geographical market conditions, industry trends and forecasts and other available information, as discussed in more detail in the Strategic Report. These plans reflect the Group's assessment of the impact of the current challenging economic environment and of changing weather patterns using up-to-date catastrophe models.

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.

Notes to the consolidated statement of financial position continued

23) Goodwill and intangible assets continued

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

	2021 £m	2020 ¹ £m
International (Ireland, Oman)	39	41
Scandinavia (Sweden, Denmark, Norway) ¹	–	132
Canada (Commercial, Johnson, Personal, Travel) ¹	–	157
Total goodwill	39	330

1. The disposal of the Group's operations in Scandinavia and Canada has reduced goodwill by **£289m** in the year.

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 2021 for the CGUs within each operating segment are shown below. The pre-tax discount rate reflects an assessment of the Intact Financial Corporation's cost of capital and of RSA's external debt and equity. For International operations, those rates are adjusted to take into account the currency and country risks.

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	
	2021	2020	2021	2020
UK	16%	15%	2%	5%
International	10%–13%	9%–14%	2%–4%	2%–3%

No impairments have been identified, with recoverable value sufficiently exceeding carrying value across the Group.

Sensitivity

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 and other intangible assets.

	Goodwill £m	Recoverable amount less carrying value £m	Change in recoverable amount less carrying value	
			Discount rate +1% £m	Weighted average growth rate -1% £m
UK	–	633	(44)	(32)
International (Ireland, Oman)	39	151	(40)	(34)
Total goodwill	39	784	(84)	(66)

24) Property and equipment

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

	2021 £m	2020 £m
Property and equipment owned (see below)	54	86
Right-of-use assets (note 44)	37	151
Total property and equipment	91	237

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

The disposal of the Group's operations in Scandinavia and Canada has reduced the total property and equipment by **£123m** in the year. Refer to note 7 for further detail.

24) Property and equipment continued

Property and equipment owned

	Group occupied property – land and buildings	Other	Total	Group occupied property – land and buildings	Other	Total
	2021 £m	2021 £m	2021 £m	2020 £m	2020 £m	2020 £m
Cost/valuation						
At 1 January	19	223	242	19	222	241
Additions	–	13	13	–	23	23
Disposal of subsidiaries	–	(90)	(90)	–	–	–
Disposals	(1)	(21)	(22)	–	(23)	(23)
Exchange adjustment	–	–	–	–	1	1
At 31 December	18	125	143	19	223	242
Accumulated depreciation						
At 1 January	–	152	152	–	158	158
Depreciation charge	(1)	11	10	–	13	13
Depreciation on disposals of subsidiaries	–	(63)	(63)	–	–	–
Depreciation on disposals	–	(20)	(20)	–	(20)	(20)
Revaluation adjustments	1	–	1	–	–	–
Exchange adjustment	–	–	–	–	1	1
At 31 December	–	80	80	–	152	152
Accumulated impairment						
At 1 January	–	4	4	–	–	–
Impairment charge	–	6	6	–	4	4
Impairment on disposals	–	(1)	(1)	–	–	–
At 31 December	–	9	9	–	4	4
Carrying amount at 31 December	18	36	54	19	67	86

Other includes fixtures, fittings and other equipment.

Depreciation expenses of **£10m** (2020: £13m) have been charged to underwriting and policy acquisition costs.

Impairments of **£6m** (2020: £4m) have been recognised in Other operating expenses.

The carrying amount of Group occupied property that would have been recognised had the assets been carried under the cost model at 31 December 2021 is **£3m** (2020: £4m).

The Group occupied property reserve at 31 December 2021 is **£21m** (2020: £21m).

Notes to the consolidated statement of financial position continued

25) Investment property

Investment property of **£371m** (2020: £285m), relating to freehold and leasehold land and buildings, is held for long term rental yields and is not occupied by the Group.

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

	2021 £m	2020 £m
At 1 January	285	300
Purchases	50	19
Sales	(8)	(29)
Fair value gain/(losses)	44	(8)
Transfer from right-of-use assets	–	3
Investment property at 31 December	371	285
Expected to be recovered after 12 months	371	285

Investment properties are included in the Group's investment portfolio to provide investment returns over the longer term in accordance with the Group's investment strategy. Investment properties are managed by external managers.

The lease agreements are normally drawn up in line with local practice and the Group has no significant exposure to leases that include contingent rents.

26) Financial assets

The following tables analyse the Group's financial assets by classification as at 31 December 2021 and 31 December 2020.

As at 31 December 2021

	At fair value through profit and loss (FVTPL) £m	Available for sale £m	Loans and receivables £m	Total £m	Expected to be recovered	
					Within 12 months £m	After 12 months £m
Equity securities	–	358	–	358	–	358
Debt securities	–	4,813	–	4,813	790	4,023
Financial assets measured at fair value	–	5,171	–	5,171	790	4,381
Loans and receivables	–	–	359	359	25	334
Total financial assets	–	5,171	359	5,530	815	4,715

As at 31 December 2020

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

The disposal of the Group's operations in Scandinavia and Canada has reduced financial assets by **£6,603m** in the year. Refer to note 7 for further detail.

26) Financial assets continued

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

	2021				2020
	Cost/ amortised cost £m	Unrealised gains £m	Unrealised losses £m	Fair value £m	Fair value £m
Equity securities	354	12	(8)	358	673
Available for sale debt securities	4,697	146	(30)	4,813	10,712
FVTPL debt securities	118	–	(118)	–	12
Financial assets measured at fair value	5,169	158	(156)	5,171	11,397
Loans and receivables	359	–	–	359	429
Total financial assets	5,528	158	(156)	5,530	11,826

Collateral

At 31 December 2021, the Group had pledged **£355m** (2020: £530m) of financial assets as collateral for liabilities or contingent liabilities, consisting of government debt securities of **£151m** (2020: £287m), non-government debt securities of **£192m** (2020: £192m), and cash and cash equivalents of **£12m** (2020: £51m). The debt securities of **£343m** (2020: £479m) are included in the balance sheet as available for sale debt securities and the Group's right to recover the cash pledged of **£12m** (2020: £51m) 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.

The total collateral pledged is **£1,237m** (2020: £530m) including the collateral pledged pertinent to reinsurance arrangements with related parties (note 17).

At 31 December 2021, the Group has accepted **£642m** (2020: £531m) in collateral, consisting of government and non-government debt securities of **£631m** (2020: £508m), which the Group is permitted to sell or repledge in the event of default by the owner, and cash and cash equivalents of **£11m** (2020: £23m). 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 **£642m** (2020: £531m). 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 2021

	Notional Amount				Fair Value	
	Less than 1 year £m	From 1 to 5 years £m	Over 5 years £m	Total £m	Asset £m	Liability £m
Designated as hedging instruments						
Currency risk (net investment in foreign operation)	193	–	–	193	2	–
Currency risk (cash flow)	1	–	–	1	–	–
Cross currency interest swaps (fair value/cash flow)	–	63	74	137	2	15
Total (note 32 / 43)					4	15
At FVTPL						
Currency risk mitigation	343	–	–	343	1	9
Inflation risk mitigation	–	–	120	120	42	34
Total (note 32 / 43)					43	43
Total derivatives					47	58

Notes to the consolidated statement of financial position continued

26) Financial assets continued

As at 31 December 2020

	Notional Amount				Fair Value	
	Less than 1 year £m	From 1 to 5 years £m	Over 5 years £m	Total £m	Asset £m	Liability £m
Designated as hedging instruments						
Currency risk (net investment in foreign operation)	1,541	–	–	1,541	12	17
Currency risk (cash flow)	3	3	–	6	–	–
Cross currency interest swaps (fair value/cash flow)	38	54	291	383	28	31
Total (note 32 / 43)					40	48
At FVTPL						
Currency risk mitigation	580	–	–	580	7	2
Inflation risk mitigation	60	15	240	315	78	95
Total (note 32 / 43)					85	97
Total derivatives					125	145

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.

After the disposal of the Canadian and Scandinavian subsidiaries, the Group applies hedge accounting to derivatives acquired to reduce foreign exchange risk in its net investment in certain overseas subsidiaries denominated in Euros. There was no ineffectiveness recognised in the income statement in respect of these hedges during 2021 or 2020.

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 3 and 34 years, with the substantial majority having a term of less than 9 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 2021 were **£1m** (2020: £26m losses) in the consolidated statement of other comprehensive income, and the amount reclassified to the income statement was a gain of **£1m** (2020: £19m gain), recognised within foreign exchange losses in other operating expenses (see note 13). There was no ineffectiveness recognised in the income statement in respect of these hedges during 2021 or 2020.

The total losses on the fair value hedge instruments recognised in the income statement were **£61m** (2020: £62m losses) and the offsetting gains related to the hedged risk were **£53m** (2020: £51m 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 2021, the Group has no borrowings from credit institutions under repurchase agreements (2020: £121m) (note 38). The Group continues to recognise debt securities in the statement of financial position as the Group remains exposed to the risks and rewards of ownership.

26) Financial assets continued

As at 31 December 2021

	Amounts subject to enforceable netting arrangements					
	Effect of offsetting in statement of financial position			Related items not offset		
	Gross amounts £m	Amounts offset £m	Net amounts reported £m	Financial instruments £m	Financial collateral £m	Net amount £m
Derivative financial assets	47	–	47	(38)	(9)	–
Cash received under repurchase arrangements	–	–	–	–	–	–
Total assets	47	–	47	(38)	(9)	–
Derivative financial liabilities	58	–	58	(38)	(11)	9
Repurchase arrangements and other similar secured borrowing	–	–	–	–	–	–
Total liabilities	58	–	58	(38)	(11)	9

As at 31 December 2020

	Amounts subject to enforceable netting arrangements					
	Effect of offsetting in statement of financial position			Related items not offset		
	Gross amounts £m	Amounts offset £m	Net amounts reported £m	Financial instruments £m	Financial collateral £m	Net amount £m
Derivative financial assets	125	–	125	(106)	(16)	3
Cash received under repurchase arrangements	121	–	121	(121)	–	–
Total assets	246	–	246	(227)	(16)	3
Derivative financial liabilities	145	–	145	(106)	(39)	–
Repurchase arrangements and other similar secured borrowing	121	–	121	(121)	–	–
Total liabilities	266	–	266	(227)	(39)	–

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 2021 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 2021

	SPPI financial assets £m	Other financial assets £m	Total £m
Available for sale equity securities	–	358	358
Available for sale debt securities	4,501	312	4,813
Loans and receivables	359	–	359
Derivative assets held for trading	–	43	43
Fair value at 31 December 2021	4,860	713	5,573

Notes to the consolidated statement of financial position continued

26) Financial assets continued

As at 31 December 2020

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

The fair value gains/losses on SPPI financial assets and other financial assets during the year are **£141m losses** (2020: £144m gains) and **£11m losses** (2020: £80m gains) respectively.

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

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

Companies within the Group that are applying IFRS 9 and disclose relevant information in their own published financial statements in addition to that already included in these consolidated financial statements are indicated in Appendix C.

27) Fair value measurement

Fair value is used to value a number of assets within the statement of financial position and represents their market value at the reporting date.

Cash and cash equivalents, loans and receivables, other assets and other liabilities

For cash and cash equivalents, loans and receivables, commercial paper, other assets, liabilities and accruals, their carrying amounts are considered to be as approximate fair values.

Group occupied property and investment property

Group occupied properties are valued annually on a vacant possession basis using third party valuers. Investment properties are valued, at least annually, at their highest and best use.

The fair value of property has been determined by external, independent valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued.

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

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.

27) Fair value measurement continued

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. Market traded securities only reflect the possible impact of climate change to the extent that this is built into the market price at which securities are trading.

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 2021 reflects equivalent yield ranges between **3.60%** and **11.46%** (2020: 4.15% and 15.41%).

Private fund structures

Loan funds are principally valued at the proportion of the Group's holding of the Net Asset Value (NAV) reported by the investment vehicle. Several procedures are employed to assess the reasonableness of the NAV reported by the fund, including obtaining and reviewing periodic and audited financial statements and estimating fair value based on a discounted cash flow model that adds spreads for credit and illiquidity to a risk-free discount rate. Discount rates employed in the model at 31 December 2021 range from **0.2%** to **4.8%** (2020: 0.2% to 8.7%). If necessary the Group will adjust the fund's reported NAV to the discounted cash flow valuation where this more appropriately represents the fair value of its interest in the investment.

Notes to the consolidated statement of financial position continued

27) Fair value measurement continued

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 2021			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Group occupied property – land and buildings	–	–	18	18
Investment properties	–	–	371	371
Available for sale financial assets:				
Equity securities	246	1	111	358
Debt securities	1,453	3,110	250	4,813
	1,699	3,111	750	5,560
Derivative assets:				
At FVTPL	–	43	–	43
Designated as hedging instruments	–	4	–	4
Total assets measured at fair value	1,699	3,158	750	5,607
Derivative liabilities:				
At FVTPL	–	43	–	43
Designated as hedging instruments	–	15	–	15
Total liabilities measured at fair value	–	58	–	58
Issued debt	–	187	–	187
Total value of liabilities not measured at fair value	–	187	–	187
Fair value hierarchy 2020				
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Group occupied property – land and buildings	–	–	19	19
Investment properties	–	–	285	285
Available for sale financial assets:				
Equity securities	185	179	309	673
Debt securities	2,416	7,874	422	10,712
Financial assets at FVTPL:				
Debt securities	–	–	12	12
	2,601	8,053	1,047	11,701
Derivative assets:				
At FVTPL	–	85	–	85
Designated as hedging instruments	–	40	–	40
Total assets measured at fair value	2,601	8,178	1,047	11,826
Derivative liabilities:				
At FVTPL	–	97	–	97
Designated as hedging instruments	–	48	–	48
Total liabilities measured at fair value	–	145	–	145
Issued debt	–	837	–	837
Total value of liabilities not measured at fair value	–	837	–	837

27) Fair value measurement continued

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

	Available for sale investments		Debt securities at FVTPL	Investment property	Group occupied property	Total
	Equity securities £m	Debt securities £m	£m	£m	£m	£m
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
At 1 January 2021	309	422	12	285	19	1,047
Total gains/(losses) recognised in:						
Income statement	(4)	(4)	(12)	44	–	24
Other comprehensive income	4	(7)	–	–	–	(3)
Purchases	19	160	–	50	–	229
Disposals ¹	(208)	(319)	–	(8)	(1)	(536)
Exchange adjustment	(9)	(2)	–	–	–	(11)
Level 3 financial assets at 31 December 2021	111	250	–	371	18	750

1. AFS equity and AFS debt securities disposals includes £160m and £218m respectively in relation to the disposals of Codan A/S and Roins Holdings Limited.

Unrealised losses of **£12m** (2020: £3m losses) attributable to FVTPL debt securities recognised in the consolidated income statement relate to an asset that is still held at the end of the year but has been fully written down.

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			
		2021		2020	
Available for sale financial assets and property	Main assumptions	Current fair value £m	Decrease in fair value £m	Current fair value £m	Decrease in fair value £m
Group occupied property – land and buildings ¹	Property valuation	18	(1)	19	(2)
Investment properties ¹	Cash flows; discount rate	371	(19)	285	(25)
Level 3 available for sale financial assets:					
Equity securities ²	Cash flows; discount rate	111	(1)	309	(4)
Debt securities ²	Cash flows; discount rate	250	(2)	422	(7)
Total		750	(23)	1,035	(38)

1. The Group's property portfolio (including the Group occupied properties) is almost exclusively located in the UK. Reasonably possible alternative valuations have been determined using an increase of 25bps in the discount rate used in the valuation (31 December 2020: 50bps). The 2020 increase of 50bps was previously considered in light of the Covid-19 uncertainty that has now significantly reduced. Therefore, the lower increase of 25bps is considered a reasonably possible scenario for 2021.

2. The Group's investments in financial assets classified at level 3 in the hierarchy are primarily investments in various private fund structures investing in debt instruments where the valuation includes estimates of the credit spreads on the underlying holdings. The estimates of the credit spread are based upon market observable credit spreads for what are considered to be assets with similar credit risk. Reasonably possible alternative valuations have been determined using an increase of 25bps in the credit spread used in the valuation (31 December 2020: 50bps). The 2020 increase of 50bps was previously considered in light of the Covid-19 uncertainty that has now significantly reduced. Therefore, the lower increase of 25bps is considered a reasonably possible scenario for 2021.

Notes to the consolidated statement of financial position continued

28) Interests in structured entities

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

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

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

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

In addition, the Group has commitments for future undrawn subscriptions limited to the amounts set out in the subscription agreements. The Group has no obligations to provide any other additional funding or other financial support to these entities. The Group has determined that its maximum exposure to structured entities is the sum of the carrying value and the undrawn commitments. These exposures at 31 December 2021 are summarised in the table below:

Class of investments	Nature of the underlying investments of the vehicle	Carrying value 2021 £m	Undrawn commitments 2021 £m	Exposure 2021 £m	Carrying value 2020 £m	Undrawn commitments 2020 £m	Exposure 2020 £m
Mortgage backed securities	Mainly consists of domestic mortgage backed securities	45	–	45	2,380	–	2,380
Collateralised debt obligations	Structured debt security backed by bonds	243	4	247	286	16	302
Cash money market funds	Short term cash deposits	298	–	298	447	–	447
Collective investment undertakings	Mainly consists of property funds	109	20	129	300	57	357
Other	Mainly consists of property funds	64	–	64	143	–	143
		759	24	783	3,556	73	3,629

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

	2021 £m	2020 £m
Investments – financial assets – equity securities	109	300
Investments – financial assets – debt securities	352	2,809
Cash and cash equivalents	298	447
	759	3,556

29) Reinsurers' share of insurance contract liabilities

	2021 £m	2020 £m
Reinsurers' share of provisions for unearned premiums	643	716
Reinsurers' share of provisions for losses and loss adjustment expenses	1,648	1,624
Total reinsurers' share of insurance contract liabilities	2,291	2,340
To be settled within 12 months	892	974
To be settled after 12 months	1,399	1,366

29) Reinsurers' share of insurance contract liabilities continued

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

	2021 £m	2020 £m
Reinsurers' share of provision for unearned premiums at 1 January	716	746
Premiums ceded to reinsurers	1,089	1,059
Reinsurers' share of premiums earned	(1,092)	(1,089)
Changes in reinsurance asset	(3)	(30)
Reinsurers' share of disposal of subsidiaries	(70)	–
Total reinsurers' share of provision for unearned premiums at 31 December	643	716

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

	2021 £m	2020 £m
Reinsurers' share of provisions for losses and loss adjustment expenses at 1 January	1,624	1,580
Reinsurers' share of total claims incurred	761	631
Total reinsurance recoveries received	(558)	(594)
Disposal of subsidiaries	(172)	(1)
Exchange adjustment	(12)	3
Other movements	5	5
Reinsurers' share of provisions for losses and loss adjustment expenses at 31 December	1,648	1,624

30) Insurance and reinsurance debtors

	2021 £m	2020 £m
Insurance debtors comprise:		
Due from policyholders	390	1,347
Due from intermediaries	1,343	1,467
Total insurance debtors	1,733	2,814
Reinsurance debtors	183	175
Total insurance and reinsurance debtors	1,916	2,989
To be settled within 12 months	1,698	2,770
To be settled after 12 months	218	219

The disposal of the Group's operations in Scandinavia and Canada has reduced insurance and reinsurance debtors by **£1,194m** in 2021. Refer to note 7 for further detail.

Notes to the consolidated statement of financial position continued

31) Current and deferred tax

Current tax

	Asset		Liability	
	2021 £m	2020 £m	2021 £m	2020 £m
To be settled within 12 months	2	18	4	33
To be settled after 12 months	–	5	–	7
Current tax position at 31 December	2	23	4	40

The **£36m** reduction in current tax liabilities in the year is due to the disposal of the Canadian and Scandinavian sub-groups as part of the restructuring following the acquisition. The current tax liabilities were **£16m** at the date of disposal (note 7).

Deferred tax

	Asset		Liability	
	2021 £m	2020 £m	2021 £m	2020 £m
Deferred tax position at 31 December	148	199	–	105

The **£105m** reduction in deferred tax liabilities in the year is due to the disposal of the Canadian and Scandinavian sub-groups as part of the restructuring following the acquisition. The deferred tax liabilities were **£79m** at the date of disposal (note 7).

Of the **£148m** (31 December 2020: £199m) deferred tax asset recognised by the Group, **£146m** (31 December 2020: £181m) relates to the UK. The **£51m** decrease in deferred tax assets during the period is predominantly due to the de-recognition of deferred tax assets in the UK (**£83m**) plus the disposals of Canada and Scandinavia (**£18m**) (note 7) as part of the restructuring following the acquisition, offset by the impact of the UK corporation tax rate increase of **£48m**.

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 1.9% per annum and no overseas premium growth where relevant to UK profit projections. The forecasts incorporate a contingency of **£35m** per annum and consider the impact of changing weather patterns using up-to-date catastrophe models.

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.

	2021 £m	2020 £m
1% increase in combined operating ratio ¹ across all 7 years	(40)	(16)
1 year reduction in the forecast modelling period	(47)	(18)
50 basis points decrease in bond yields	(18)	(6)
No annual premium growth ²	(3)	(1)

1. Combined operating ratio (COR) is a measure of underwriting performance and is the ratio of underwriting costs expressed in relation to earned premiums.

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

There is increased sensitivity to changes in the operational plan compared to previous years due to the increase in the substantively enacted tax rate to 25% in the year and due to recognising a proportionally greater amount of deferred tax assets, which are not subject to the 50% tax loss offset restriction rules.

31) Current and deferred tax continued

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

	2021 £m	2020 £m
Net unrealised gains on investments	(25)	(70)
Intangibles capitalised	–	(22)
Deferred acquisition costs	–	(7)
Tax losses and unused tax credits	15	78
Other deferred tax reliefs	76	98
Net insurance contract liabilities	(1)	(52)
Retirement benefit obligations	(1)	15
Capital allowances	82	40
Provisions and other temporary differences	2	14
Net deferred tax asset at 31 December	148	94

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

	2021 £m	2020 £m
Net deferred tax asset at 1 January	94	125
Amounts charged to income statement	(72)	(40)
Amounts charged to other comprehensive income	(12)	(5)
Net amount arising on disposal/acquisition of subsidiaries and other transfers	88	1
Exchange adjustments	–	(8)
Effect of change in tax rates – income statement	50	21
Net deferred tax asset at 31 December	148	94

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

	2021		2020	
	Gross amount £m	Tax effect £m	Gross amount £m	Tax effect £m
Trading tax losses	2,018	455	1,531	280
Capital tax losses	1,285	308	1,298	247
Deductible temporary differences	381	91	162	31
Unremitted retained earnings	–	–	(606)	(30)
Unrecognised tax assets/(liabilities) as at 31 December	3,684	854	2,385	528

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** (2020: £2m) of the gross trading tax losses are attributable to Luxembourg and will expire in 2036.

Notes to the consolidated statement of financial position continued

32) Other debtors and other assets

	2021 £m	2020 £m
Derivatives designated as accounting hedging instruments (note 26)	4	40
Other derivatives (note 26)	43	85
Other debtors	99	185
Pension scheme surplus (note 41)	490	379
Accrued interest and rent	60	88
Prepayments	41	63
Total other debtors and assets	737	840
To be settled within 12 months	173	334
To be settled after 12 months	564	506

The disposal of the Group's operations in Scandinavia and Canada has reduced other debtors and other assets by **£182m** in 2021. Refer to note 7 for further detail.

33) Cash and cash equivalents

	2021 £m	2020 £m
Cash and cash equivalents, and bank overdrafts (consolidated statement of cash flows)	492	1,083
Add: Overdrafts reported in other borrowings (note 38)	8	11
Total cash and cash equivalents (consolidated statement of financial position)	500	1,094

The disposal of the Group's operations in Scandinavia and Canada has reduced cash and cash equivalents by **£357m** in 2021. Refer to note 7 for further detail.

No cash and cash equivalents are restricted for operational RSA Group use at 31 December 2021 (31 December 2020: £27m restricted cash held in Canada).

34) Share capital

The issued share capital of the Parent Company is fully paid and consists of two classes: Ordinary Shares with a nominal value of £1 each and Preference Shares with a nominal value of £1 each. The issued share capital at 31 December 2021 is:

	2021 £m	2020 £m
Issued and fully paid		
1,269,484,814 Ordinary Shares of £1 each (31 December 2020: 1,035,267,610 Ordinary Shares of £1 each)	1,269	1,035
125,000,000 Preference Shares of £1 each (2020: 125,000,000 Preference Shares of £1 each)	125	125
	1,394	1,160

The movement of Ordinary Shares in issue, their nominal value and the associated share premiums during 2021 are as follows:

	Number of shares	Nominal value £m	Share premium £m
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 1 January 2021	1,035,267,610	1,035	1,095
Issued in respect of employee share options and employee share awards ¹	13,217,203	13	7
Capital injection from Regent Bidco Limited ¹	1,021,000,001	1,021	275
Capital reduction	(800,000,000)	(800)	(1,095)
At 31 December 2021	1,269,484,814	1,269	282

1. The consolidated statement of changes in equity shows **£1,023m** shares issued for cash, which includes **£1,021m** capital injection from Regent Bidco Limited and **£2m** in respect of employee share options and employee share awards. A further **£275m** capital injection from Regent Bidco Limited was recognised as share premium, and an additional **£11m** share-based payments were also issued in respect of employee share options and employee share awards.

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.

34) Share capital continued

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 Limited Articles of Association which are available on the Group's website.

Employee share schemes

Shares issued in respect of employee share options and employee share awards includes **9,391,504** accelerated share awards under the long-term incentive plan (Performance Share Plan (PSP)) and **1,737,667** accelerated shares issued under the Group employee share option plan ahead of the acquisition of the Group.

35) Other equity instruments – Tier 1 notes

On 27 March 2017, the Company issued two floating rate Restricted Tier 1 (RT1) notes totalling £297m in aggregate size and with a blended coupon of c.4.7%. The notes are as follows:

- Swedish Krona 2,500m at 3 month Stibor +525bps (equivalent to c.4.8% coupon on issue)
- Danish Krone 650m at 3 month Cibar +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 (27 March 2022), or any interest payment date thereafter or in the event of certain changes in the tax, regulatory or ratings treatment of the notes. Any redemption is subject, inter alia, to the Company giving notice to the relevant regulator and the regulator granting permission to redeem. The notes convert into ordinary shares of the Company, at a pre-determined price in the event that certain solvency capital requirements are breached, or in the event of a winding up occurring earlier, would be entitled to a return of capital in preference to ordinary shareholders but behind the rights of the existing preference shareholders, as more fully set out in the terms and conditions of the notes. Accordingly, the notes are treated as a separate category within equity and coupon payments are recognised as distributions, similar to the treatment of preference share dividends.

36) Non-controlling interests

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

	NCI shares at 31 December 2021		NCI shares at 31 December 2020	
	Share of net assets		Share of net assets	
	%	£m	%	£m
Royal & Sun Alliance Insurance (Middle East) BSC (c)	50	156	50	164

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

	2021 Share of net assets £m	2020 Share of net assets £m
Al Alamiya for Cooperative Insurance Company	36	38
Al Ahlia Insurance Company SAOG	32	33

During 2021 the dividends paid to the non-controlling interests in the Middle East were **£10m** (2020: £13m).

37) Issued debt

	2021 £m	2020 £m
Subordinated guaranteed US\$ bonds	6	6
Guaranteed subordinated notes due 2045	159	397
Total loan capital	165	403
Senior notes due 2024	–	348
Total issued debt	165	751

Notes to the consolidated statement of financial position continued

37) Issued debt continued

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 original 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. **£240m** of these bonds (nominal value) were repurchased and cancelled in September 2021 (remaining nominal £160m). Premium and amortisation costs of **£37m** were incurred, and are presented in finance costs in the consolidated income statement. The Group has the option to defer interest payments on the bonds and notes, but has to date not exercised this right.

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.

Senior notes

The nominal £350m senior notes, issued on 28 August 2019, were repaid in full on 16 June 2021. Make-whole and amortisation costs of **£16m** were incurred, and are presented in finance costs in the consolidated income statement.

All issued debt

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

38) Other borrowings

The 2021 other borrowings relate to bank accounts in overdraft **£8m** (2020: £11m). 2020 also included borrowings from credit institutions under repurchase agreements £121m.

The disposal of the Group's operations in Scandinavia and Canada has reduced borrowings by **£46m** in 2021. Refer to note 7 for further detail.

39) Insurance contract liabilities

Estimation techniques and uncertainties

Provisions for losses and loss adjustment expenses are subject to a robust reserving process by each of the Group's business units and at Group Corporate Centre, as detailed in the risk management note (note 6). The Group has strong independent oversight governance arrangements in place to provide assurance over the reasonableness of reserve estimates.

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 and incurred claims trends, the volume and nature of the insurance underwritten by the Group and current specific case reserves. Also considered are developing loss trends, the potential longer-term significance of large events, the levels of unpaid claims, qualitative information that may be relevant to our loss experience, 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. Incurred or paid claims to date for each year are extrapolated to estimate the ultimate cost using these assessed trends which are based upon the observed development of earlier periods.
- Estimates based upon a projection of claims numbers and average cost
- Expected loss ratios
- The Bornhuetter-Ferguson method, which combines features of the above methods
- Bespoke methods for specialist classes of business or types of claims, for example, for Periodic Payment Orders in the UK where a detailed cash flow model is used with specific assumptions on future indexation and longevity given the individual characteristics of these claims.

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 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 considerations such as consistent claims handling practise and mix of business, which is tested as part of the Group's analytic process to ensure that assumptions are reasonable.

Individual 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.

39) Insurance contract liabilities continued

Insurance contract liability estimates remain subject to heightened uncertainty relative to normal circumstances due to the impact of the Covid-19 pandemic. The Group monitors evolving experience and regularly reviews the key assumptions and sources of uncertainty. The impact of some issues has become clearer during 2021, such as interpretation of the January 2021 Supreme Court ruling and the subsequent Financial Ombudsman determinations which have largely supported the year end position, and the different frequency and mix of claims during the 2020 lockdowns. However significant uncertainties remain and are unlikely to diminish before reinsurance recoveries are made and whilst issues such as industry court cases are resolved.

Materially different outcomes to those we assume are possible, driven by either direct Covid-19 claims movements or from indirect Covid-19 impacts which make reliable identification of trends more difficult and uncertain than under normal circumstances.

The main areas of heightened uncertainty from indirect Covid-19 effects include frequency changes, severity changes, and changes in the external environment that might impact the pace at which claims information emerges and can be reflected in the estimates. Whilst many classes of business saw changes in policyholder behaviour (such as reduced levels of driving and therefore reduced motor claim frequency) during the Covid-19 lockdowns, the impact of this on 2020 experience is now more stable although the effects from 2021 Covid-19 restrictions are still evolving given these continued throughout the year. The potential changes in external factors such as medical and legal updates which could impact the pace of development of claims information remains highly uncertain. These issues are subject to close monitoring and judgements have been made within our reserve estimates in recognition of this. The increasing inflationary pressure arising from the wider economic environment during 2021 complicates assessment of the severity impact, with different factors contributing to severity changes such as supply chain issues which are likely to have been impacted by Covid-19 to some degree although perhaps also from other sources such as Brexit.

Business interruption (BI) claims are the main direct Covid-19 claim type that remain subject to significant ongoing uncertainty now that travel and wedding claims experience has neutralised. Direct Covid-19 business BI claims estimates have been fully reviewed during 2021 to true up estimates and reflect the latest experience, judgments, legal advice and qualitative assessments. This work resulted in an increase in the Groups net actuarial indication of approximately **£30m** during the year ended 31 December 2021. The revised estimates were produced following forensic analysis on individual claims that considered claims-specific aspects such as level of cover, industry type and date of loss. This analysis was supported by discussion with a range of claims, accounting, and legal experts to help inform how current incurred claims experience might develop in the future. A key difference during 2021 is that direct Covid-19 claims estimates are now based upon more mature claims information, whereas before the estimates had to rely more on exposure data and assumptions whilst the claims information was immature.

The main outstanding uncertainties around the direct Covid-19 gross ultimate claims estimate centre around interpretation of policy wordings on issues such as triggers of cover and application of policy limits. In some cases, the pace of progress is limited as some of the relevant issues are being debated in high profile legal cases in the industry. Once these are resolved quicker progress on these issues is expected. On 25 February 2022, the High Court handed down its judgment in the case of Corbin & King Ltd & Ors v AXA Insurance UK Plc. A detailed assessment, supported by legal advice, has been undertaken by the Group from which it has been concluded that the judgment does not have a material impact on the assumptions used in determining, or the assessed value of, the claims estimates as at 31 December 2021. The Group will continue to monitor the progression of this case, including any appeal to a higher court or its impact on other legal processes.

Whilst the gross estimate remains uncertain due to the issues described above, in the event unexpected change arise from the various uncertainties, the Group expects that the reinsurance cover would respond in many of the scenarios that could evolve and as such the net position has meaningful protection against material adverse development. The catastrophe reinsurance treaty, the Group Volatility Cover and the property risk excess of loss treaty are the relevant reinsurance covers the Group has in place that provide this protection. 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. 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. Judgements on these issues have firmed up throughout 2021 as supporting information emerged, such as granular claims data to better assess date of loss and consequently revise reinsurance aggregation assumptions. During 2021, the Group has made cash-calls and started Covid-19 reinsurance collections. Failure to recover outstanding assumed reinsurance recoveries in line with the expectations could lead to a material increase in the reported net liability.

The level of provision carried by the Group includes a margin over and above the actuarial indication. The method for the reserve margin calculation was changed in June 2021 to align with the method of calculation of RSA's ultimate parent company Intact Financial Corporation. Applying this method and the continued evolving estimation uncertainty from Covid-19 has resulted in an increased level of reserve margin. The appropriateness of the margin held is subject to regular review as part of our reserving process which considers the risk characteristics of our liability profile, and the sensitivity of our actuarial indication estimates to key uncertainties.

As a result of management's review of Covid-19 liabilities as noted above, given our review of the uncertain economic environment which contributes to the evolving level of estimation uncertainty, and in aligning practices on reserve margin with IFC following their acquisition of the Group, additional booked reserve strengthening of approximately **£180m** was recognised in June 2021.

Notes to the consolidated statement of financial position continued

39) Insurance contract liabilities continued

Sensitivities

Sensitivities in the table below show the impact on the net claims reserves of changes to key assumptions in relation to reserving risk and underwriting and claims risk as described in note 6.

Impact on net claims reserves	2021 £m	2020 £m
Current year attritional loss ratios frequency or severity assumptions +5%	60–70	60–70
Current year large loss ratios frequency or severity assumptions +5%	15–25	15–25
Inflation being 1% higher than expected for the next 2 years (excluding annuities)	50–60	50–60
UK Annuities (PPOs) discount rate being 0.5% lower than expected	10–15	10–15

In the table above, the 2020 impacts have been restated to reflect the RSA continuing operations post the takeover of RSA by Intact Financial Corporation.

Net claims reserves for Covid-19 business interruption 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 and level of cover, 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 **£3,844m** (2020: £3,624m related to continuing operations).

Key discount rates on certain classes of business are as follows:

	Category	Discount rate		Average number of years to settlement from reporting date	
		2021 %	2020 %	2021 Years	2020 Years
UK	Periodic Payment Orders	4.0	4.0	18	19

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 2021, the value of the discount on net claims liability reserves is **£15m** (2020: £13m) excluding UK annuities (PPOs). All other factors remaining constant, a decrease of 0.5% in the discount rates would reduce the value of the discount by approximately **£2m** (2020: £2m).

As at 31 December 2021, the net of reinsurance value of the discount on UK annuities (PPOs) is **£201m** (2020: £246m). The impact of a change in discount rate for the UK annuities is given in the above sensitivities table.

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

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

	Gross 2021 £m	RI 2021 £m	Net 2021 £m
Provision for unearned premiums	1,909	(643)	1,266
Provision for losses and loss adjustment expenses	5,276	(1,648)	3,628
Total insurance contract liabilities	7,185	(2,291)	4,894
	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

The disposal of the Group's operations in Scandinavia and Canada has reduced gross insurance contract liabilities by **£6,659m** and reinsurers' (RI) share of insurance contract liabilities by **£1,073m**. Refer to note 7 for further detail.

39) Insurance contract liabilities continued**Provision for unearned premiums, gross of acquisition costs**

	2021 £m	2020 £m
Provision for unearned premiums (gross of acquisition costs) at 1 January	3,860	3,812
Premiums written	5,563	7,282
Less: Premiums earned	(5,423)	(7,288)
Changes in provision for unearned premiums	140	(6)
Disposal of subsidiaries	(1,628)	–
Exchange adjustment	(37)	54
Provision for unearned premiums (gross of acquisition costs) at 31 December	2,335	3,860

The provision for unearned premiums is shown net of deferred acquisition costs of **£426m** (2020: £625m). Movements in deferred acquisition costs during the year are as follows:

	2021 £m	2020 £m
Deferred acquisition costs at 1 January	625	646
Acquisition costs deferred during the year	55	992
Amortisation charged during the year	(59)	(1,018)
Exchange gains/(losses)	(2)	4
Other movements	–	1
Disposal of subsidiaries	(193)	–
Deferred acquisition costs at 31 December	426	625

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:

	2021 £m	2020 £m
Provisions for losses and loss adjustment expenses at 1 January	9,379	9,141
Gross claims incurred and loss adjustment expenses	3,670	4,521
Total claims payments made in the year net of salvage and other recoveries	(3,189)	(4,556)
Disposal of subsidiary	(4,451)	(10)
Exchange adjustment	(154)	237
Unwind of discount and change in economic assumptions	16	39
Other movements	5	7
Provisions for losses and loss adjustment expenses at 31 December	5,276	9,379

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 2011 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 triangle on the top of the table 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 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.

Notes to the consolidated statement of financial position continued

39) Insurance contract liabilities continued

Consolidated claims development table gross of reinsurance

	2011 and prior £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	Total £m
Estimate of cumulative claims												
At end of accident year		1,461	1,616	1,501	1,546	1,431	1,868	1,682	1,659	1,426	1,531	
One year later		1,516	1,694	1,624	1,594	1,464	1,864	1,758	1,669	1,570		
Two years later		1,536	1,655	1,581	1,613	1,429	1,859	1,735	1,721			
Three years later		1,527	1,618	1,587	1,554	1,429	1,861	1,765				
Four years later		1,505	1,637	1,551	1,552	1,425	1,910					
Five years later		1,524	1,616	1,536	1,552	1,434						
Six years later		1,515	1,604	1,530	1,605							
Seven years later		1,508	1,592	1,536								
Eight years later		1,506	1,593									
Nine years later		1,497										
Ten years later												
Current estimate of cumulative claims		1,497	1,593	1,536	1,605	1,434	1,910	1,765	1,721	1,570	1,531	
Claims paid to date		1,453	1,488	1,470	1,454	1,213	1,483	1,262	1,013	509		
Reconciliation to the statement of financial position												
Current year provision before discounting	266	44	105	66	151	221	427	503	708	1,061	1,531	5,083
Exchange adjustment to closing rates												(13)
Discounting												(23)
Annuities												229
Present value recognised in the consolidated statement of financial position												5,276
2021 movement	1	9	(1)	(6)	(53)	(9)	(49)	(30)	(52)	(144)		(334)

39) Insurance contract liabilities continued

Consolidated claims development table net of reinsurance

	2011 and prior £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	Total £m
Estimate of cumulative claims												
At end of accident year		1,289	1,466	1,250	1,211	1,064	1,352	1,203	1,042	931	1,226	
One year later		1,335	1,560	1,319	1,163	1,102	1,404	1,253	1,095	1,016		
Two years later		1,351	1,531	1,311	1,146	1,081	1,384	1,230	1,104			
Three years later		1,333	1,512	1,280	1,095	1,083	1,386	1,245				
Four years later		1,314	1,484	1,262	1,088	1,078	1,423					
Five years later		1,322	1,476	1,257	1,087	1,076						
Six years later		1,314	1,469	1,253	1,135							
Seven years later		1,310	1,466	1,257								
Eight years later		1,307	1,462									
Nine years later		1,297										
Ten years later												
Current estimate of cumulative claims		1,297	1,462	1,257	1,135	1,076	1,423	1,245	1,104	1,016	1,226	
Claims paid to date		1,262	1,381	1,210	1,057	923	1,109	933	617	420		
Reconciliation to the statement of financial position												
Current year provision before discounting	195	35	81	47	78	153	314	312	487	596	1,226	3,524
Exchange adjustment to closing rates												(8)
Discounting												(14)
Annuities												126
Present value recognised in the consolidated statement of financial position												3,628
2021 movement	11	10	4	(4)	(48)	2	(37)	(15)	(9)	(85)		(171)

40) Insurance and reinsurance liabilities

	2021 £m	2020 £m
Direct insurance creditors	79	121
Reinsurance creditors	763	811
Total insurance and reinsurance liabilities	842	932

The disposal of the Group's operations in Scandinavia and Canada has reduced insurance and reinsurance liabilities by **£159m** in 2021. Refer to note 7 for further detail.

Notes to the consolidated statement of financial position continued

41) Post-employment benefits and obligations

Defined contribution pension schemes

Costs of **£47m** (2020: £68m) were recognised in respect of defined contribution schemes by the Group.

Defined benefit pension schemes and other post-employment benefits

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

	2021			2020		
	UK £m	Other £m	Total £m	UK £m	Other £m	Total £m
Present value of funded obligations	(8,583)	(83)	(8,666)	(8,844)	(452)	(9,296)
Present value of unfunded obligations	(5)	(8)	(13)	(6)	(99)	(105)
Fair value of plan assets	9,310	100	9,410	9,355	500	9,855
Other net surplus remeasurements	(254)	–	(254)	(179)	–	(179)
Net IAS 19 surplus/(deficits) in the schemes	468	9	477	326	(51)	275
Defined benefit pension schemes	468	17	485	326	–	326
Other post-employment benefits	–	(8)	(8)	–	(51)	(51)
Schemes in surplus (note 32)	473	17	490	333	46	379
Schemes in deficit (note 42)	(5)	(8)	(13)	(7)	(97)	(104)

The disposal of the Group's operations in Scandinavia and Canada has reduced pensions and post-employment net obligations by **£44m** in 2021.

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 and disability incidence.

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 2021 (the latest date at which full information is available) is as follows:

Deferred members – members no longer accruing and not yet receiving benefits	21,647
Pensioners – members and dependants receiving benefits	19,179
Total members at 30 September 2021	40,826

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.

41) Post-employment benefits and obligations continued

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 2021 is **£1,523m** (2020: £1,596m). Management do not believe that there is a significant risk of a material change to the balance in the consolidated statement of financial position net of the associated pension liabilities subject to the arrangement within the next financial year.

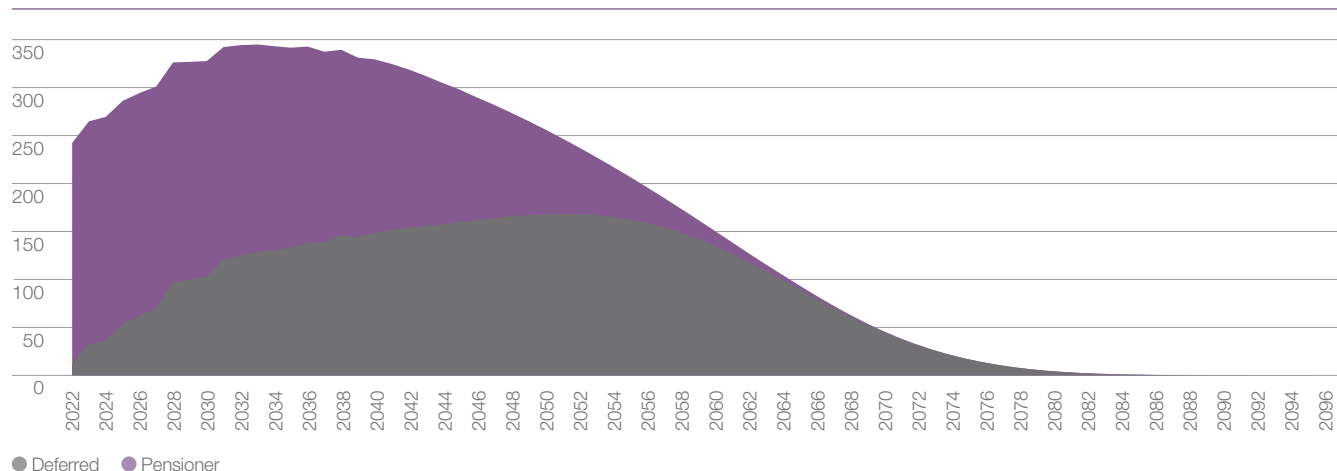
Each scheme is subject to triennial valuations, which are used to determine the future funding of the schemes by the Group including funding to repair any funding deficit. The funding valuations, which determine the level of cash contributions payable into the schemes and which must be agreed between the Trustees and the Group, are typically based on a prudent assessment of future experience with the discount rate reflecting a prudent expectation of returns based on actual investment strategy. This differs from IAS 19, which requires that future benefit cash flows are projected on the basis of best-estimate assumptions and discounted in line with high-quality corporate bond yields. The Trustees' funding assumptions are updated only every three years, following completion of the triennial funding valuations. The effective date of the most recent valuations of the main UK funds is 31 March 2018.

At the most recent funding valuations, the main UK funds had an aggregate funding deficit of **£468m**, equivalent to a funding level of 95%. The Group and the Trustees have agreed funding plans to eliminate the funding deficits by 2026. Details of the deficit contributions paid in 2021 and that are due to be paid in 2022 under these plans are disclosed below. The funding plans are being reviewed as part of the next triennial valuations which have an effective date of 31 March 2021, and are expected to be completed in the first half of 2022.

For the two main UK defined benefit schemes, the level of contributions in 2021 was **£160m** (2020: £84m) of which **£150m** (2020: £75m) were additional contributions to reduce funding deficits, including **£75m** paid upon completion of the acquisition by Intact Financial Corporation. Expected contributions to the two schemes for the year ending 31 December 2022 are approximately **£83m** including **£75m** of additional contributions to reduce the deficit.

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

Cash flow – total liability £m



The weighted average duration of the defined benefit obligation of the two main UK schemes at the end of the reporting period is **17.5 years** (2020: 17.5 years).

Notes to the consolidated statement of financial position continued

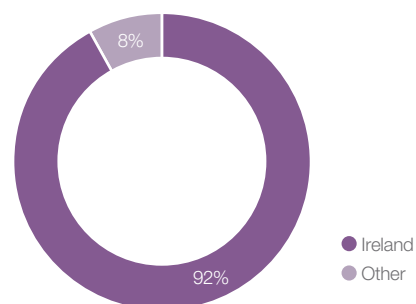
41) Post-employment benefits and obligations continued

Non-UK schemes

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

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

Non-UK liability split by country



All schemes

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

Movement during the year:

	2021			
	Present value of obligations £m	Fair value of plan assets £m	Other net surplus remeasurements £m	Net surplus/ (deficit) £m
At 1 January	(9,401)	9,855	(179)	275
Current service costs	(3)	–	–	(3)
Termination payments	(1)	–	–	(1)
Interest (expense)/income	(126)	134	–	8
Administration costs	–	(6)	–	(6)
Total (expenses)/income recognised in income statement	(130)	128	–	(2)
Return on scheme assets less amounts in interest income	–	(4)	–	(4)
Effect of changes in financial assumptions	367	–	–	367
Effect of changes in demographic assumptions	(45)	–	–	(45)
Experience gains and losses	(237)	–	–	(237)
Investment expenses	–	(10)	–	(10)
Other net surplus remeasurements	–	–	(75)	(75)
Remeasurements recognised in other comprehensive income	85	(14)	(75)	(4)
Employer contribution	–	164	–	164
Benefit payments	340	(340)	–	–
Increase/(decrease) due to disposals	428	(383)	–	45
Exchange adjustment	(1)	–	–	(1)
At 31 December	(8,679)	9,410	(254)	477
Deferred tax	–	–	–	(1)
IAS 19 net surplus net of deferred tax				476

41) Post-employment benefits and obligations continued

	2020			
	Present value of obligations £m	Fair value of plan assets £m	Other net surplus remeasurements £m	Net surplus/ (deficit) £m
At 1 January	(8,681)	9,016	(141)	194
Current service costs	(6)	–	–	(6)
Termination payments	(1)	–	–	(1)
Interest (expense)/income	(178)	186	–	8
Administration costs	–	(7)	–	(7)
Gains on settlements/curtailments	1	–	–	1
Total (expenses)/income recognised in income statement	(184)	179	–	(5)
Return on scheme assets less amounts in interest income	–	950	–	950
Effect of changes in financial assumptions	(1,000)	–	–	(1,000)
Effect of changes in demographic assumptions	18	–	–	18
Experience gains 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

Employer contributions include **£150m** of deficit funding paid in the year to 31 December 2021. This includes an additional **£75m** of deficit funding paid following the acquisition, on top of the **£75m** expected deficit funding contributions disclosed in the 2020 Annual Report and Accounts.

£44m disposal of subsidiary relates to the sale of the Group's Canadian operations and is included in the net assets disposed of in note 5 as **£35m** within other debtors and other assets and **£79m** within provisions.

The values of scheme assets are as follows:

	2021			2020		
	UK £m	Other £m	Total £m	UK £m	Other £m	Total £m
Equities	579	17	596	545	124	669
Government debt	6,567	49	6,616	6,514	336	6,850
Non-government debt	3,651	5	3,656	3,493	1	3,494
Derivatives	1,041	12	1,053	1,061	–	1,061
Property	659	–	659	636	–	636
Cash	86	–	86	191	11	202
Other (including annuity contracts, infrastructure and growth alternatives)	363	17	380	362	28	390
Investments	12,946	100	13,046	12,802	500	13,302
Value of asset and longevity swaps	(3,636)	–	(3,636)	(3,447)	–	(3,447)
Total assets in the schemes	9,310	100	9,410	9,355	500	9,855

Notes to the consolidated statement of financial position continued

41) Post-employment benefits and obligations continued

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

	2021			2020		
	Total Quoted £m	Total Unquoted £m	Total £m	Total Quoted £m	Total Unquoted £m	Total £m
Equities	568	28	596	563	106	669
Government debt	6,616	–	6,616	6,850	–	6,850
Non-government debt	2,482	1,174	3,656	1,928	1,566	3,494
Derivatives	–	1,053	1,053	–	1,061	1,061
Property	1	658	659	1	635	636
Cash	86	–	86	202	–	202
Other (including annuity contracts, infrastructure and growth alternatives)	–	380	380	–	390	390
Investments	9,753	3,293	13,046	9,544	3,758	13,302
Value of asset and longevity swaps	–	(3,636)	(3,636)	–	(3,447)	(3,447)
Total assets in the schemes	9,753	(343)	9,410	9,544	311	9,855

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	
	2021 %	2020 %	2021 %	2020 %
Assumptions used in calculation of retirement benefit obligations:				
Discount rate	1.84	1.38	1.63	1.42
Annual rate of inflation (RPI)	3.35	2.92	–	–
Annual rate of inflation (CPI)	2.71	2.26	2.19	1.70
Annual rate of increase in salaries	n/a	n/a	4.00	4.00
Annual rate of increase in pensions ¹	3.14	2.79	2.20	1.35
Assumptions used in calculation of pension net interest costs for the year:				
Discount rate	1.38	2.05	1.42	1.56

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

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. The impact on future mortality trends as a result of Covid-19 are still unknown, and so no adjustments were made to the mortality assumptions in this regard for the year ending 31 December 2021.

Reductions in future mortality rates are allowed for by using the CMI 2020 tables (2020: CMI 2019 tables) with a long term improvement rate of **1.25%** (2020: 1.25%). The weighted average assumptions imply that a current pensioner aged 60 has an expected future lifetime of **27.1** (2020: 27.0) years for males and **28.9** (2020: 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** (2020: 28.0) years for males and **29.8** (2020: 29.7) years for females.

41) Post-employment benefits and obligations continued

Sensitivity analysis

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

	Changes in assumption	2021 £m	2020 £m
Discount rate	Increase by 0.25%	(356)	(369)
	Decrease by 0.25%	380	394
RPI/CPI ¹	Increase by 0.25%	228	233
	Decrease by 0.25%	(226)	(227)
Core mortality rates ²	Decrease by 12%	355	376
	Increase by 12%	(325)	(377)
Long-term future improvements to mortality rates	Increase by 0.25%	82	84
	Decrease by 0.25%	(81)	(83)

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

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

42) Provisions

	2021 £m	2020 £m
Pensions and post-employment obligations (note 41)	13	104
Reorganisation provisions	8	34
Other provisions	29	34
Total provisions at 31 December	50	172
To be settled within 12 months	19	69
To be settled after 12 months	31	103

Reorganisation provisions include **£1m** (2020: £19m) relating to redundancy costs for plans which were announced to employees before the RSA acquisition by Intact Financial Corporation and are expected to be settled before 31 December 2022. The 2021 provision predominantly relates to redundancy costs incurred as a result of the integration of the Group into Intact Financial Corporation. See note 13 for more details of integration costs incurred.

Other provisions include **£11m** (2020: £13m) held relating to property dilapidations and refurbishments, the costs relating to which will be borne across the period over which the leases expire, which is up to 20 years. The balance consists of a number of provisions none of which are individually significant.

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

Movements during the year on reorganisation and other provisions

	Reorganisation provisions	Other provisions
	2021 £m	2021 £m
Provisions at 1 January 2021	34	34
Exchange adjustment	(1)	–
Additional provisions during the year	12	27
Utilised	(30)	(23)
Released	–	(3)
Disposals	(7)	(5)
Provisions at 31 December 2021	8	30

Notes to the consolidated statement of financial position continued

43) Other liabilities

	2021 £m	2020 £m
Deposits received from reinsurers	–	8
Derivatives designated as accounting hedges (note 26)	15	48
Other derivatives (note 26)	43	97
Payroll and Indirect taxes	85	170
Outstanding settlements for investment purchases	–	100
Other creditors	57	148
Accruals	283	392
Deferred income	15	63
Lease liabilities (note 44)	55	204
Total other liabilities	553	1,230
To be settled within 12 months	447	927
To be settled after 12 months	106	303

The disposal of the Group's operations in Scandinavia and Canada has reduced other liabilities by **£502m** in 2021. Refer to note 7 for further detail.

44) Leases

Leases as a lessee

The Group leases land and buildings and other assets such as vehicles, IT equipment, servers and mainframes (reported as other) to operate its business in each of its core regions. The remaining lease terms for the main office premises range from 1 to 17 years.

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

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

Right-of-use assets

	Land and buildings £m	Other £m	Total £m
Amounts recognised at transition on 1 January 2020	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 ¹	9	(1)	8
Balance at 31 December 2020	143	8	151
Depreciation charge for the year	(16)	(3)	(19)
Additions to right-of-use assets	4	1	5
Remeasurements	(3)	–	(3)
Disposals	(91)	(4)	(95)
Other ¹	(2)	–	(2)
Balance at 31 December 2021	35	2	37

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

44) Leases continued

Impairment assessment

When testing for indicators of impairment, the key judgements and assumptions were considered:

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.

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

There were no impairments identified in 2021. The key judgements and assumptions used in measuring the recoverable amounts of the impaired right of use assets are not deemed materially sensitive.

Lease liabilities

Lease liabilities of **£55m** (2020: £204m) are included within other liabilities in the consolidated statement of financial position (see note 43). The maturity analysis of this balance can be found in note 6.

A reconciliation of lease liabilities is presented below.

	2021 £m	2020 £m
Balance at 1 January	204	258
Lease payments	(27)	(50)
Additions to lease liabilities	5	12
Remeasurements	(12)	(25)
Interest on lease liabilities	3	6
Disposals	(116)	–
Foreign exchange	(2)	3
Balance at 31 December	55	204

Other amounts recognised in profit or loss from continuing operations

	2021 £m	2020 £m
Leases under IFRS 16		
Interest on lease liabilities	3	3
Expenses relating to leases of low-value assets	–	1
Expenses relating to variable lease payments	8	4

Amounts recognised in statement of cash flows

	2021 £m	2020 £m
Total cash outflow for leases	35	61

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

Leases as a lessor

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

Notes to the consolidated statement of financial position continued

44) Leases continued

Finance leases

The Group has sub-let office floor space in 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 2021, on a continuing basis the Group recognised interest income on lease receivables of **£nil** (2020: £nil).

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	
	2021 £m	2020 ¹ £m
Less than one year	2	2
One to two years	2	3
Two to three years	2	2
Three to four years	2	2
Four to five years	–	2
More than five years	–	3
Total undiscounted lease receivable	8	14
Unearned finance income	–	(1)
Net investment in the lease	8	13

1. Includes **£5m** net investment in the lease relating to Canada.

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 2021, the Group recognised **£17m** of rental income within its net investment return (2020: £18m).

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	
	2021 £m	2020 £m
Less than one year	17	15
One to two years	16	15
Two to three years	15	14
Three to four years	15	11
Four to five years	13	10
More than five years	73	41
Total	149	106

Notes to the consolidated statement of cash flows

45) Reconciliation of cash flows from operating activities

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

	Notes	2021 £m	2020 £m
Cash flows from operating activities			
Profit for the year before tax	9	4,332	483
Adjustments for non-cash movements in net profit for the year			
Amortisation of available for sale assets		37	49
Depreciation and impairment of tangible assets	24/44	35	74
Amortisation and impairment of intangible assets and goodwill	23	60	100
Fair value (gains) / losses on financial assets		(46)	–
Impairment charge on available for sale financial assets		18	32
Share of profit of associates		–	(1)
(Gain)/Loss on disposal of businesses	8	(4,395)	6
Derecognition of intangibles		73	5
Share based payments		28	19
Other non-cash movements		13	(32)
Changes in operating assets/liabilities			
Loss and loss adjustment expenses		293	(41)
Unearned premiums		140	48
Movement in working capital		(160)	(40)
Reclassification of investment income and interest paid		(122)	(282)
Pension deficit funding	41	(150)	(75)
Cash generated from investment of insurance assets			
Dividend income		16	28
Interest and other investment income		185	288
Cash flows from operating activities		357	661

46) Reconciliation of movements of liabilities arising from financing activities

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

	Issued debt £m	Accrued interest payable on issued debt £m	Lease liabilities £m	Borrowings from credit institutions under repurchase agreements £m	Total £m
Balance at 1 January 2021	751	7	204	121	1,083
Changes from financing cash flows					
Redemption of debt instruments	(642)	–	–	–	(642)
Payment of lease liabilities	–	–	(24)	–	(24)
Net movement in other borrowings ¹	–	–	–	(71)	(71)
Interest paid	–	(23)	(3)	–	(26)
Total changes from financing cash flows	(642)	(23)	(27)	(71)	(763)
Acquisition / Disposal of subsidiary	–	–	(116)	(46)	(162)
The effect of changes in foreign exchange rates	–	–	(2)	(4)	(6)
Interest Charge ²	56	18	3	–	77
Other changes	–	–	(7)	–	(7)
Balance at 31 December 2021	165	2	55	–	222

1. This movement represents cash repayments of repurchase agreements and bank overdrafts and excludes the effects of the Scandinavian repurchase agreements disposed and the changes in foreign exchange rates (separately disclosed).

2. The interest charge for issued debt includes **£53m** relating to premiums on debt buyback (see note 37 for further information).

Notes to the consolidated statement of cash flows continued

46) Reconciliation of movements of liabilities arising from financing activities continued

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

Other commitments, contingent liabilities and events after the reporting period

47) Other commitments

Capital commitments

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

	2021 £m	2020 £m
Investment Property	3	23
Property and equipment	7	8
Intangible assets	9	21
Total	19	52

Funding commitments to structured entities and invested assets

The future commitments to structured entities are disclosed in note 28 of these financial statements. In addition, the Group has committed to invest **£464m** (2020: £319m) in other classes of investments.

48) Other contingent liabilities

The Group receives liability claims and becomes involved in actual or threatened litigation during the ordinary course of its business operations. The Group reviews and, in the opinion of the directors, maintains sufficient provisions, capital and reserves in respect of such claims.

In addition, the Group has given guarantees, indemnities and warranties in relation to the disposals of its businesses and business interests to external parties. These are kept under review and, in the opinion of the directors, no material loss will arise in respect of these guarantees, indemnities and warranties.

A small number of litigation claims for unpaid BI claims have been filed outside of the UK FCA test case in other regions. RSA conducts a thorough claims assessment process for all BI claims received. Most BI coverages are not expected to be eligible under their terms for Covid-19 claims. Consequently claims reserves are held in accordance with our view of prospects of success.

49) Events after the reporting period

The Group has limited direct underwriting or investment exposure to the war between Ukraine and Russia and is vigilant in its adherence to sanctions. The situation will continue to be closely monitored for any indirect impacts that could emerge.

On 7 March 2022 the Company gave notice of redemption to the holders of the two floating rate Restricted Tier 1 notes. The Tier 1 notes will be redeemed at their principal amount together with accrued and unpaid interest up to (but excluding) the first call date on 27 March 2022.

Appendices

Appendix A: Other accounting policies

Subsidiaries

Subsidiaries are entities over which the Group has control. The Group controls a subsidiary if the Group has all of the following:

- Power over the subsidiary
- Exposure, or rights, to variable returns from its involvement with the subsidiary
- The ability to use its power over the subsidiary to affect its returns

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

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

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

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

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

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

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

Investment in associates

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

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

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

Translation of foreign operations

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

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

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

Foreign currency transactions

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

Internal loans

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

Appendices continued

Appendix A: Other accounting policies continued

Hedge accounting

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

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

Hedge of a net investment in a foreign operation

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

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

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

Hedge of future cash flows

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

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

Hedge of changes in fair value

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

Property and equipment

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

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

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

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

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

Appendix A: Other accounting policies continued

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

Gains and losses on disposal are recognised based on the carrying amount of the asset. On disposal of buildings, any associated revaluation surplus is transferred to retained earnings.

Investment property and rental income

Investment property is stated at fair value. The fair value methodology is set out in more detail in note 27. Unrealised gains and unrealised losses are recognised in net investment return in the consolidated income statement. Rental income from operating leases on investment property is recognised in the consolidated income statement on a straight line basis over the length of the lease.

Policy acquisition costs

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

Issued debt

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

Provisions

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

Contingent liabilities

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

Termination benefits

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

Own shares

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

Other operating income

Other operating income is comprised principally of:

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

Share-based payments

The fair value of the employee share options and other equity settled share-based payments is calculated at the grant date and recognised as an expense over the vesting period. The vesting/maturity of share awards can be dependent on service and performance conditions, as well as market conditions. The assumption of the number of shares expected to vest is revised at the end of each reporting period, with the corresponding credit or charge recognised immediately in the income statement. Where an option is cancelled by an employee, the full value of the option (less any value previously recognised) is recognised at the cancellation date. The proceeds received by RSA upon exercise of share options are credited to share capital (nominal value) and share premium, with a corresponding increase in equity.

Appendices continued

Appendix A: Other accounting policies continued

The cash-settled awards are recognised as an expense over the vesting period with a corresponding financial liability reported in other liabilities. This liability is remeasured at each reporting date based on the current share price, with any fluctuations in the liability also recorded as an expense until it is settled.

Further information on the share schemes the Group operates can be found in note 20.

Dividends

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

Leases

The Group as lessee

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

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

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

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

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

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

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

The Group as lessor

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

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

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

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

Appendix B: Exchange rates

The rates of exchange used in these accounts in respect of the major overseas currency are:

Local currency/£	2021		2020	
	Average	Closing	Average	Closing
United States Dollar	1.37	1.35	1.28	1.37
Canadian Dollar	1.72	1.71	1.72	1.74
Euro	1.16	1.19	1.13	1.12
Swedish Krona	11.80	12.26	11.81	11.22
Danish Krone	8.65	8.86	8.39	8.31

Appendix C: Subsidiaries and associates

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

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

Name and country of incorporation	Registered office addresses	Class of shares held	Percentage Holding (%)	Name and country of incorporation	Registered office addresses	Class of shares held	Percentage Holding (%)
Bahrain				RSA Overseas Holdings (No 1) Unlimited Company⁷			
Royal & Sun Alliance Insurance (Middle East) BSC (c)	Impact House, Building, office no. 21, 2nd floor, Building no. 662, Road no. 2811, Black no. 428, Al Seef, Manama, Kingdom of Bahrain		50.00002	RSA House, Dundrum Town Centre, Sandford Road, Dublin 16, Ireland			
Brazil				RSA Overseas Holdings (No. 2) Unlimited Company⁷			
Royal & Sun Alliance Insurance Ltd – Escritório de Representação no Brasil Ltda.	Avenida Major Sylvio de Magalhães Padilha, 5200, America Business Park, Ed. Dallas, conj. 31, sala 02, Jardim Morumbi, Zip Code 05693-000, City of São Paulo, State of São Paulo, Brazil			RSA House, Dundrum Town Centre, Sandford Road, Dublin 16, Ireland			
Guernsey				RSA Reinsurance Ireland Limited			
Insurance Corporation of the Channel Islands Limited	Dixcart House, Sir William Place, St. Peter Port, Guernsey, GY1 4EY			RSA House, Dundrum Town Centre, Sandford Road, Dublin 16, Ireland			
Insurance Corporation Service Company Limited	Dixcart House, Sir William Place, St. Peter Port, Guernsey, GY1 4EY			RSA Broker Motor Insurance Ireland Limited (previously Sertus Underwriting Limited)⁷			
India				Isle of Man			
RSA Actuarial Services (India) Private Limited ⁷	First Floor, Building 10 C, Cyber City Complex, DLF Phase II, Gurgaon, Haryana, 122002, India			RSA Isle of Man No.1 Limited ⁷	33-37 Athol Street, Douglas, IM1 1LB, Isle of Man		
Ireland				Royal Insurance Service Company (Isle of Man) Limited ⁷	Jubilee Buildings, 1 Victoria Street, Douglas, IM99 1BF, Isle of Man		
123 Money Limited ^{4,7}	RSA House, Dundrum Town Centre, Sandford Road, Dublin 16, Ireland	B1 Ordinary		Tower Insurance Company Limited	Jubilee Buildings, 1 Victoria Street, Douglas, IM99 1BF, Isle of Man		
123 Money Limited ^{4,7}	RSA House, Dundrum Town Centre, Sandford Road, Dublin 16, Ireland	B2 Ordinary		Luxembourg			
123 Money Limited ^{4,7}	RSA House, Dundrum Town Centre, Sandford Road, Dublin 16, Ireland	B3 Ordinary		RSA Luxembourg S.A. ⁷	40 rue du Cure, L-1368 Luxembourg		
123 Money Limited ^{4,7}	RSA House, Dundrum Town Centre, Sandford Road, Dublin 16, Ireland	B4 Ordinary		Netherlands			
123 Money Limited ^{4,7}	RSA House, Dundrum Town Centre, Sandford Road, Dublin 16, Ireland	B5 Ordinary		IDIP Direct Insurance B.V. ⁷	20 Fenchurch Street, London, EC3M 3AU, United Kingdom		
123 Money Limited ^{4,7}	RSA House, Dundrum Town Centre, Sandford Road, Dublin 16, Ireland	C Ordinary		Intouch Insurance Group B.V. ⁷	20 Fenchurch Street, London, EC3M 3AU, United Kingdom		
123 Money Limited ⁷	RSA House, Dundrum Town Centre, Sandford Road, Dublin 16, Ireland			RSA Overseas (Netherlands) B.V. ⁷	20 Fenchurch Street, London, EC3M 3AU, United Kingdom		
123 Money Limited ⁷	RSA House, Dundrum Town Centre, Sandford Road, Dublin 16, Ireland	€1 redeemable shares		RSA Overseas Holdings B.V. ⁷	20 Fenchurch Street, London, EC3M 3AU, United Kingdom		
Benchmark Underwriting Limited ⁷	RSA House, Dundrum Town Centre, Sandford Road, Dublin 16, Ireland			GDII – Global Direct Insurance Investments V.O.F. ⁷	Wilhelminakade 97-99, 3072 AP Rotterdam, Netherlands	Partnership Interest	
EGI Holdings Limited ⁷	RSA House, Dundrum Town Centre, Sandford Road, Dublin 16, Ireland			Royal Insurance Global B.V. ⁷	Wilhelminakade 97-99, 3072 AP Rotterdam, Netherlands		
RSA Insurance Ireland DAC	RSA House, Dundrum Town Centre, Sandford Road, Dublin 16, Ireland			Oman			
				Al Ahlia Insurance Company SAOG ⁶	PO Box 1463, PC112, Ruwi, Oman		52.50
				Saudi Arabia			
				Al Alamiya for Cooperative Insurance Company ⁶	Office No.203, 2nd Floor, Home Centre Building, Tahlia Street, Suleymaniyah, Riyadh, Kingdom of Saudi Arabia		50.07
				United Kingdom			
				Centrium Management Company Limited ³	5th Floor, United Kingdom House, 180 Oxford Street, London, W1D 1NN, United Kingdom		31.45
				Punchbowl Park Management Limited ^{3,5}	10 Buckingham Gate, London, SW1E 6LA, United Kingdom		65.09

Appendices continued

Appendix C: Subsidiaries and associates continued

Name and country of incorporation	Registered office addresses	Class of shares held	Percentage Holding (%)
Eurotempest Limited ³	c/o UCL Business Plc, The Network Building 97, Tottenham Court Road, London, W1T 4TP, United Kingdom		33.33
Polaris U.K. Limited ³	New London House, 6 London Street, London, EC3R 7LP, United Kingdom		25.38
RSA Northern Ireland Insurance Limited ⁷	Law Society House, 90-106 Victoria Street, Belfast, BT1 3GN, Northern Ireland		
Emersons Green Management Company	The Old Council Chambers, Halford Street, Tamworth, England		33.00
Aztec West Management Company	Minton Place, Station Road, Swindon, SN1 1DA		3.00
Hempton Court Manco Limited ^{3,5}	7 Seymour Street, London, W1H 7JW		66.66
Alliance Assurance Company Limited ⁷	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
National Vulcan Engineering Insurance Group Limited ⁷	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
Regent SubCo Limited	1 Bartholomew Lane, London, EC2N 1AX, United Kingdom		
Non-Destructive Testers Limited ⁷	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
R&SA Global Network Limited ⁷	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		64.00
R&SA Marketing Services Limited ⁷	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
Royal & Sun Alliance Insurance (Global) Limited ⁷	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
Royal & Sun Alliance Insurance Limited	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom	Class A Ordinary	
Royal & Sun Alliance Insurance Limited ^{4,8}	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom	Class B Ordinary	
Royal & Sun Alliance Pension Trustee Limited ⁷	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
Royal & Sun Alliance Property Services Limited ⁷	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
Royal & Sun Alliance Reinsurance Limited	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
Royal Insurance Holdings Limited ^{1,7}	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
Royal Insurance (U.K.) Limited ⁷	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
Royal International Insurance Holdings Limited ⁷	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom	£1.00 Ordinary	
Royal International Insurance Holdings Limited ⁷	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom	US\$1.00 Ordinary	

Name and country of incorporation	Registered office addresses	Class of shares held	Percentage Holding (%)
Roysun Limited ⁷	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
RSA Accident Repairs Limited ⁷	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
RSA Finance ⁷	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
RSA Law Limited ⁷	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		90.00
Sal Pension Fund Limited ^{1,7}	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		99.99
Sun Alliance and London Insurance Limited ⁷	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
Sun Alliance Insurance Overseas Limited ⁷	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
Sun Alliance Mortgage Company Limited ^{1,7}	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
Sun Insurance Office Limited ⁷	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
The London Assurance ⁷	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
The Globe Insurance Company Limited ⁷	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
The Marine Insurance Company Limited	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
The Sea Insurance Company Limited ⁷	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		
Westgate Properties Limited ⁷	St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL, United Kingdom		

United States

Royal & Sun Alliance Insurance Agency Inc. ⁹	Wall Street Plaza, 88 Pine Street, New York, NY 10005, United States
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1. Directly owned by the Parent Company RSA Insurance Group Limited.
2. No subsidiary holds a disclosable interest in the shares of RSA Insurance Group Limited.
3. Indicates that the holding represents an Investment or is an Associate of the Group.
4. Indicates ownership of non-voting shares.
5. There is no subsidiary where the Group holds less than 50% of the voting rights. There are no entities where the Group holds more than 50% of the voting rights which are not subsidiaries other than Punchbowl and Hempton Court Manco.
6. In relation to Al Ahlia Insurance Company SAOG (listed on the Muscat Securities Market, Oman Stock Exchange) and Al Alamiya for Cooperative Insurance Company (listed on the Tadawul, Saudi Stock Exchange), the percentage held relates to the actual percentage of the share capital held and not the effective percentage held (which is 26.25% and 25.04% respectively).
7. Indicates companies within the Group that apply IFRS 9 and disclose relevant information in their own published financial statements in addition to that already included in these consolidated financial statements.
8. Intact Financial Corporation hold 73.54% of the share capital of Royal & Sun Alliance Insurance Limited in non-voting "nil-paid" shares.
9. Royal & Sun Alliance Insurance Agency Inc. was sold and transferred out of the RSA Group effective 1 January 2022.

Appendix D: Jargon buster and alternative performance measures reconciliations

Jargon buster

Term	Definition
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.
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.
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.
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)	<p>A measure of underwriting performance being the ratio of underwriting expenses (claims, commissions and expenses) expressed in relation to earned premiums:</p> <p>$COR = \text{loss ratio} + \text{commission ratio} + \text{expense ratio}$, where</p> <p>Loss ratio = net incurred claims/net earned premiums</p> <p>Commission ratio = commissions/net earned premiums</p> <p>Expense ratio = underwriting and policy acquisition costs less other insurance income/net earned premiums</p>
Commission	An amount paid to an intermediary such as a broker for introducing business to the Group.
Current Year Loss Ratio	The claims ratio relating to business for which insurance cover has been provided during the current financial period. This does not include claims development recognised in the current reporting period relating to prior accident years.
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.
Customer Retention	A measure of the amount of business that is renewed with us each year.
Expense Ratio	Underwriting and policy acquisition expenses less other insurance income expressed as a percentage of net earned premium.
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 were covered in full if they exceeded the £10m franchise level. In 2021, the qualifying criteria for catastrophe losses were unchanged but individual large losses qualified based on a £5m excess (the £10m in/out trigger no longer applied). 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.
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.
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.
Net Earned Premium (NEP)	The proportion of premium written, net of the cost of associated reinsurance, which represents the consideration charged to policyholders for providing insurance cover during the reporting period.
Net Incurred Claims (NIC)	The total claims cost incurred in the period less any share that is borne by reinsurers. It includes both claims payments and movements in claims reserves and claims handling expenses in the period.
Net Written Premium (NWP)	Premium written or processed in the period, irrespective of whether it has been paid, less the amount shared with reinsurers.

Appendices continued

Appendix D: Jargon buster and alternative performance measures reconciliations continued

Term	Definition														
	Other charges represents items that are excluded to arrive at business operating result.														
Other charges	<table> <tr> <th>Item</th><th>Reason for classification</th></tr> <tr> <td>Amortisation of intangible assets</td><td>To allow meaningful assessment of segmental performance where similar internally generated assets are not capitalised.</td></tr> <tr> <td>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</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, integration and transaction costs</td><td>To allow assessment of the performance of ongoing business activities.</td></tr> </table>	Item	Reason for classification	Amortisation of intangible assets	To allow meaningful assessment of segmental performance where similar internally generated assets are not capitalised.	Economic assumption changes	To allow assessment of performance excluding the impact of changes in the discount rate on long-term insurance liabilities.	Gains and losses arising from the disposal of businesses	To allow assessment of the performance of ongoing business activities.	Pension administration and net interest costs	Costs that are dependent on the level of defined benefit pension scheme plan funding and arise from servicing past pension commitments.	Realised and unrealised gains and losses on investments/foreign exchange gains and losses	To remove the impact of market volatility and investment rebalancing activity.	Reorganisation, integration and transaction costs	To allow assessment of the performance of ongoing business activities.
Item	Reason for classification														
Amortisation of intangible assets	To allow meaningful assessment of segmental performance where similar internally generated assets are not capitalised.														
Economic assumption changes	To allow assessment of performance excluding the impact of changes in the discount rate on long-term insurance liabilities.														
Gains and losses arising from the disposal of businesses	To allow assessment of the performance of ongoing business activities.														
Pension administration and net interest costs	Costs that are dependent on the level of defined benefit pension scheme plan funding and arise from servicing past pension commitments.														
Realised and unrealised gains and losses on investments/foreign exchange gains and losses	To remove the impact of market volatility and investment rebalancing activity.														
Reorganisation, integration and transaction costs	To allow assessment of the performance of ongoing business activities.														
Prudential Regulation Authority (PRA)	The regulatory authority with responsibility for the prudential regulation and supervision of the UK financial services industry.														
Reinsurance	The practice whereby part or all of the risk accepted is transferred to another insurer (the reinsurer).														
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.														
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.														
Underwriting Result	Net earned premium and other insurance income less net claims and underwriting and policy acquisition costs. Underwriting result is an internal measure of profitability of the operating segments and a key KPI used to assess performance of the Group. It is an alternative performance measure (APM) and is reconciled to the nearest IFRS measures in the APM reconciliations presented after the Jargon Buster.														
Unearned Premium	The portion of a premium that relates to future periods, for which protection has not yet been provided, irrespective of whether the premium has been paid or not.														
Weather Losses	Weather claims incurred with a net cost of £0.5m or higher and losses of less than £0.5m where extreme weather has been identified over an extended period.														
Weather Loss Ratio	The weather loss ratio is an expression of weather losses in the period as a percentage of earned premium.														
Yield	Rate of return on an investment in percentage terms. The dividend payable on a share expressed as a percentage of the market price.														

Appendix D: Jargon buster and alternative performance measures reconciliations continued

Alternative performance measures reconciliations

IFRS reconciliation to management P&L

For the year ended 31 December 2021

		Underwriting result	Investment result	Central costs	Business operating result	Other charges	Loss before tax from continuing operations
£m	IFRS	Management					
Continuing operations							
Income							
Gross written premiums	4,294	4,294					
Less: reinsurance written premiums	(1,001)	(1,001)					
Net written premiums	3,293	3,293					
Change in the gross provision for unearned premiums	(44)	(44)					
Change in provision for unearned reinsurance premiums	(42)	(42)					
Change in provision for net unearned premiums	(86)	(86)					
Net earned premiums	3,207	3,207					
Investment income	139		139				
Realised losses on investments	(2)					(2)	
Unrealised gains, impairments and foreign exchange	23					23	
Net investment return	160						
Other insurance income	79	79					
Pension net interest and administration costs	3					3	
Other operating income	82						
Total income	3,449						
Expenses							
Gross claims incurred	(2,959)	(2,959)					
Less: claims recoveries from reinsurers	759	759					
Net claims	(2,200)	(2,200)					
Underwriting and policy acquisition costs	(1,223)	(1,223)					
Unwind of discount	(6)		(6)				
Investment expenses	(23)		(23)				
Central expenses	(11)			(11)			
Foreign exchange losses	(2)					(2)	
Integration costs	(40)					(40)	
Transaction costs	(96)					(96)	
Other operating expenses	(172)						
	(3,601)						
Finance costs	(76)					(76)	
(Loss)/profit before tax from continuing operations	(228)	(137)	110	(11)	(38)	(190)	(228)
Income tax expense	(33)						
Loss after tax from continuing operations	(261)						
Profit from discontinued operations	4,531						
Profit for the period	4,270						

Appendices continued

Appendix D: Jargon buster and alternative performance measures reconciliations continued

IFRS reconciliation to management P&L

For the year ended 31 December 2020

		Underwriting result	Investment result	Central costs	Business operating result	Other charges	Loss before tax from continuing operations
£m	IFRS	Management					
Continuing operations							
Income							
Gross written premiums	3,988	3,988					
Less: reinsurance written premiums	(950)	(950)					
Net written premiums	3,038	3,038					
Change in the gross provision for unearned premiums	29	29					
Change in provision for unearned reinsurance premiums	(34)	(34)					
Change in provision for net unearned premiums	(5)	(5)					
Net earned premiums	3,033	3,033					
Investment income	125	125					
Unrealised losses, impairments and foreign exchange	(15)					(15)	
Net investment return	110						
Other insurance income	89	89					
Pension net interest and administration costs	4					4	
Other operating income	93						
Total income	3,236						
Expenses							
Gross claims incurred	(2,527)	(2,527)					
Less: claims recoveries from reinsurers	607	607					
Net claims	(1,920)	(1,920)					
Underwriting and policy acquisition costs	(1,169)	(1,169)					
Unwind of discount	(7)	(7)					
Investment expenses	(8)	(8)					
Central expenses	(13)			(13)			
Amortisation of intangibles	(2)					(2)	
Transaction costs	(14)					(14)	
Foreign exchange losses	(8)					(8)	
Reorganisation costs	(78)					(78)	
Other operating expenses	(123)						
	(3,219)						
Finance costs	(30)					(30)	
Loss on disposal of business	(5)					(5)	
Net share of profit after tax of associates	1			1			
(Loss)/profit before tax from continuing operations	(17)	33	110	(12)	131	(148)	(17)
Income tax expense	(2)						
Loss after tax from continuing operations	(19)						
Profit from discontinued operations	383						
Profit for the period	364						

Parent Company statement of comprehensive income

For the year ended 31 December 2021

	2021 £m	2020 £m
Profit/(loss) for the year net of tax	6,038	(19)
Items that may be reclassified to the income statement:		
Fair value (losses)/gains on debt securities net of tax	(10)	11
Items that will not be reclassified to the income statement:		
Fair value (losses)/gains on investment in subsidiaries	(4,876)	1,290
Total other comprehensive (expense)/income for the year	(4,886)	1,301
Total comprehensive income for the year	1,152	1,282

The profit for the year net of tax includes dividend income of **£6,210m** received from Royal Insurance Holdings Limited (2020: nil) and a tax charge of **£8m** (2020: £5m tax credit). Fair value losses on debt securities include a tax credit of **£2m** (2020: £2m tax charge).

Parent Company statement of changes in equity

For the year ended 31 December 2021

	Ordinary share capital £m	Ordinary share premium £m	Preference shares £m	Revaluation reserves £m	Capital redemption reserve £m	Retained earnings £m	Tier 1 notes £m	Total equity £m
Balance at 1 January 2020	1,032	1,090	125	2,424	389	1,123	297	6,480
Total comprehensive income/(expense) for the year								
Loss for the year net of tax	–	–	–	–	–	(19)	–	(19)
Fair value gains net of tax	–	–	–	1,301	–	–	–	1,301
	–	–	–	1,301	–	(19)	–	1,282
Dividends – paid ² (note 8)	–	–	–	–	–	(108)	–	(108)
Shares issued for cash (note 12)	1	5	–	–	–	–	–	6
Share-based payments (note 7)	2	–	–	–	–	17	–	19
Balance at 1 January 2021	1,035	1,095	125	3,725	389	1,013	297	7,679
Total comprehensive income/(expense) for the year								
Profit for the year net of tax	–	–	–	–	–	6,038	–	6,038
Fair value losses net of tax	–	–	–	(3,721)	–	(1,165)	–	(4,886)
	–	–	–	(3,721)	–	4,873	–	1,152
Dividends – paid ² (note 8)	–	–	–	–	–	(6,938)	–	(6,938)
Shares issued for cash (note 12)	1,023	282	–	–	–	–	–	1,305
Share-based payments (note 7)	11	–	–	–	–	17	–	28
Capital reduction ¹	(800)	(1,095)	–	–	(389)	2,284	–	–
Balance at 31 December 2021	1,269	282	125	4	–	1,249	297	3,226

1. A reduction of the Company's share capital of **£800m**, share premium of **£1,095m** and capital redemption reserve of **£389m** was effected in June 2021 by special resolution supported by a solvency statement which resulted in the creation of distributable reserves of **£2,284m**.

2. For the dividends paid, please refer to the Group note 21.

The attached notes form an integral part of these Parent Company financial statements.

Parent Company statement of financial position

As at 31 December 2021

	Note	2021 £m	2020 £m
Assets			
Investments in subsidiaries	9	2,405	6,276
Investments in debt securities	9	–	360
Amounts owed by subsidiaries	6	1,408	2,185
Current tax assets	10	–	4
Deferred tax assets	10	–	4
Other debtors and other assets	11	–	5
Other assets		1,408	2,198
Cash and cash equivalents		1	3
Total assets		3,814	8,837
Equity and liabilities			
Equity attributable to owners of the Parent Company		3,226	7,679
Liabilities			
Amounts owed to subsidiaries	6	403	366
Issued debt	14	165	751
Current tax liabilities	10	2	–
Accruals and other liabilities		18	41
Total liabilities		588	1,158
Total equity and liabilities		3,814	8,837

The attached notes form an integral part of these Parent Company financial statements.

The profit for the year net of tax was **£6,038m** (2020: £19m loss).

The Parent Company financial statements were approved on 11 March 2022 by the Board of Directors and are signed on its behalf by:



Charlotte Jones
Group Chief Financial Officer

Parent Company statement of cash flows

For the year ended 31 December 2021

	2021 £m	2020 £m
Cash flows from operating activities		
Profit/(loss) for the year before tax	6,046	(24)
Adjustments for non-cash movements in net profit for the year		
Share-based payments	28	19
Other non-cash movements	10	7
Changes in operating assets/liabilities		
Movement in working capital	(31)	9
Reclassification of investment income and interest paid	(6,251)	15
Cash generated from investments		
Dividend income	6,210	–
Interest and other investment income	117	12
Tax recovered	3	4
Net cash flows from operating activities	6,132	42
Cash flows from investing activities		
Purchase of financial assets	(652)	(21)
Proceeds from sales of financial assets	3	10
Net movement in amounts owed by subsidiaries	121	96
Repayment of issued debt from subsidiaries	693	–
Net cash flows from investing activities	165	85
Cash flows from financing activities		
Proceeds from issue of share capital	1,304	6
Dividends paid to ordinary shareholders	(6,914)	(83)
Coupon payment on Tier 1 notes	(15)	(16)
Dividends paid to preference shareholders	(9)	(9)
Redemption of debt instruments	(642)	–
Interest paid	(23)	(27)
Net cash flows from financing activities	(6,299)	(129)
Net decrease in cash and cash equivalents	(2)	(2)
Cash and cash equivalents at the beginning of the year	3	5
Cash and cash equivalents at the end of the year	1	3

The attached notes form an integral part of these Parent Company financial statements.

Notes to the Parent Company financial statements

1) Basis of preparation

RSA Insurance Group Limited (the Company) is incorporated in England and Wales and is the intermediate Parent Company of the RSA Group of companies with Intact Financial Corporation being the ultimate Parent Company. The principal activity of the Company is to hold investments in its subsidiaries and the receipt and payment of dividends.

These Parent Company financial statements have been prepared on a going concern basis and in accordance with the UK-adopted International Accounting Standards (IAS) and the requirements of the Companies Act 2006.

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

In accordance with section 408 of the Companies Act 2006, the Company's income statement and related notes have not been presented in these Parent Company financial statements.

2) Significant accounting estimates and judgements

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

Estimates and their underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The most significant estimate is in connection with fair valuing the investment in subsidiaries. Fair value has been calculated by applying the income approach which uses discounted cash flow valuation models to assess the present value of expected future economic benefits.

Key assumptions relate to discount rate, growth rate and cash flows. Cash flows are based on the latest Board approved operational plan. Sensitivities have been used to assess the impact of changes in key assumptions on fair value, details of which can be found in note 9.

3) Adoption of new and revised accounting standards

There are no new and revised accounting standards that have or are expected to have an impact on the Company.

4) Significant accounting policies

The accounting policies that are used in the preparation of these Parent Company financial statements are consistent with the accounting policies used in the preparation of the consolidated financial statements of the Group as set out in the consolidated financial statements, with the exception of financial instruments where the Company is not permitted to defer the application of IFRS 9 'Financial Instruments'.

The accounting policies that are specific to the Parent Company financial statements are set out below.

Investments in subsidiaries

The Company designates its investments in directly owned subsidiaries at fair value through other comprehensive income (FVOCI) as they are considered strategic in nature. The fair value is determined by applying the income approach which uses discounted cashflow valuation models for major operating entities and the net asset value for other smaller entities.

Changes in the fair value of the investments in subsidiaries are recognised directly in equity through the statement of other comprehensive income and are not reclassified through profit or loss on derecognition.

Amounts owed from subsidiaries

The Company accounts for amounts owed from subsidiaries at amortised cost and determines an expected credit loss (ECL) based on those default events that are possible within 12 months after the reporting date, or where the credit risk has increased significantly since initial recognition on the basis of all possible default events over the life of debt. Specifically the probability of default is considered together with the expected subsequent loss.

It has been concluded that the value of the ECL would be insignificant and so no ECL is recognised.

Investments in debt securities

Investments in debt securities are valued at FVOCI on the basis that their contractual cash flows are solely principal and interest and the Company's business model's objective is to hold such investments to collect their contractual cash flows and for sale.

An allowance for ECL is based on those default events that are possible within 12 months after the reporting date, or where the credit risk has increased significantly since initial recognition on the basis of all possible default events over the life of debt. Specifically the probability of default is considered over the appropriate period of time together with the expected subsequent loss. For investment grade debt securities, rated BBB or above, the 'low credit risk exemption' available within IFRS 9 has been applied. For these assets, it is assumed that credit risk has not increased significantly since initial recognition. As at the balance sheet date, all of the Company's debt securities are investment grade and expected credit losses are not significant and so no ECL is recognised.

On disposal of debt securities any related balance within the FVOCI reserve will be reclassified to the income statement.

Dividend income

Dividend income from investment in subsidiaries is recognised when the right to receive payment is established.

Interest income

Interest income is recognised using the effective interest rate method.

5) Risk and capital management

The Company's key risks are considered to be the same as those faced by the Group. Details of the key risks to the Group and the steps taken to manage them are disclosed in the risk and capital management section (note 6) of the consolidated financial statements.

6) Related party transactions

The following transactions were carried out with related parties:

RSA Insurance Group Limited provides services and benefits to its subsidiary companies operating within the UK and overseas as follows:

- Provision of technical support in relation to risk management, information technology and reinsurance services. Services are charged for annually on a cost plus basis, allowing for a margin of **7%** (2020: 7%).
- Issue of share options and share awards to employees of subsidiaries. Costs are charged for annually, based on the underlying value of the awards granted calculated in accordance with the guidance set out within IFRS 2.

The amounts charged in respect of these services to the Company's subsidiaries totalled **£29m** (2020: £60m).

Key management compensation

	2021 £m	2020 £m
Short term employee benefits	15	13
Termination benefits	2	–
Share-based awards	12	7
Total	29	20

Transactions with parent company

The Company's parent company is Regent Bidco Limited, a wholly owned subsidiary of Intact Financial Corporation, the ultimate controlling party.

During the year ended 31 December 2021, the following related party transactions have taken place with Regent Bidco Limited:

- Upon acquisition, the Company received a capital injection from Regent Bidco Limited of **£1,021m**
- The Company received a further capital injection from Regent Bidco Limited of **£275m** in September to fund the repurchase of its Guaranteed subordinated notes (Tier 2 notes) with a par value of **£240m** for a total cost of **£275m**.
- Ordinary dividends paid to Regent Bidco Limited of **£6,914m**

Other related party transactions

Interest is receivable on interest bearing loans to subsidiaries, which are repayable on 24 hours written notice. The rates of interest charged during the period are at monthly average SONIA plus 0.80% margin.

Interest is payable on interest bearing loans from subsidiaries, which are repayable on 24 hours written notice. The rates of interest charged during the period are at monthly average SONIA plus 0.25% margin.

Interest income from subsidiaries is **£13m** (2020: £26m), and interest charged to subsidiaries is **£1m** (2020: £1m). Dividends of **£6,210m** were received from a subsidiary, Royal Insurance Holdings Limited, during the year (2020: £nil).

The company also incurred losses of **£9m** (2020 £nil) on foreign exchange derivatives with Intact Financial Corporation.

Royal & Sun Alliance Insurance Limited (RSAI), a subsidiary of the Company, has provided guarantees to the Company's creditors for amounts arising from its issued debt agreements (as set out in note 37 to the consolidated financial statements) and for amounts arising from its committed credit facilities (as set out in note 38 to the consolidated financial statements). The guarantees relating to the issued debt agreements are subordinated to all other creditors of RSAI.

Related party balances

Year end balances with related parties are set out below:

	2021 £m	2020 £m
Receivable from related parties:		
Receivable from subsidiaries, interest bearing loans	1,164	1,857
Receivable from subsidiaries, non interest bearing loans	244	328
Total receivable from subsidiaries/related parties	1,408	2,185
Payable to related parties:		
Payable to subsidiaries, interest bearing loans	171	189
Payable to subsidiaries, non interest bearing loans	232	177
Total payable to subsidiaries	403	366
Payable to other related parties, derivative liabilities	9	–
Total payable to related parties	412	366

Notes to the Parent Company financial statements continued

7) Share-based payments

Full details of share-based compensation plans are provided in note 20 to the consolidated financial statements.

8) Dividends paid and proposed

Following the acquisition, the Group disposed of its operations in Scandinavia and Canada, as disclosed in the Group note 7 in exchange for interest bearing demand notes, which were considered highly liquid financial instruments, classified as cash equivalents. Those demand notes were subsequently used to settle dividends (dividends in specie) paid to Regent Bidco Limited. Therefore, the settlement of the dividends in specie is a cash transaction presented as a cash outflow in the cash flow statement within financing activities.

Full details of the dividends paid and proposed by the Company are set out in note 21 to the consolidated financial statements.

9) Investments

	Debt securities £m	Subsidiaries £m	Total £m
Investments at 1 January 2020	341	4,986	5,327
Purchases	21	–	21
Disposals	(10)	–	(10)
Total (losses)/gains recognised in:			
Income statement	(6)	–	(6)
Other comprehensive income	14	1,290	1,304
Investments at 31 December 2020	360	6,276	6,636
Purchases	2	1,005	1,007
Disposals ¹	(354)	–	(354)
Total gains/(losses) recognised in:			
Income statement	4	–	4
Other comprehensive income	(12)	(4,876)	(4,888)
Investments at 31 December 2021	–	2,405	2,405

1. The Parent Company contributed its entire investment portfolio in debt securities of £351m to Royal Insurance Holdings Limited in exchange for ordinary shares.

Investments in subsidiaries

The investments in subsidiaries are recognised in the statement of financial position at fair value measured in accordance with the Company's accounting policies. The Company's investments in subsidiaries are classified as level 3 financial assets. Fair value has been calculated by applying the income approach which uses discounted cash flow valuation models to assess the present value of expected future economic benefits. Discounted cash flows were based on the latest Board approved operational plan. Sensitivities have been used to assess the impact of changes in that assumption.

	Decrease in fair value through OCI 2021 £m
1% increase in discount rate	(277)
1% reduction in growth rate	(188)
1% increase in combined operating ratio across all years ¹	(355)

1. Combined operating ratio (COR) is a measure of underwriting performance and is the ratio of underwriting costs expressed in relation to earned premiums.

Comparable sensitivities are unavailable for 2020 due to a change in methodology with 2020 balance being valued based on the market value of the company (level 2 asset in 2020). The market value of the Company's ordinary shares at 31 December 2020 was 677.40p. A movement of 5% in share price would have an impact of £351m on the 2020 fair value. This methodology is no longer applicable following the acquisition of the Group by Intact Financial Corporation as a market value is no longer available.

Full details of the principal subsidiaries of the Company are set out in Appendix C to the consolidated financial statements.

9) Investments continued

Investments in debt securities

The investments in debt securities, all of which are listed, are classified at fair value through other comprehensive income (FVOCI) and at 31 December were neither past due nor impaired and comprise of securities with the following investment grades.

	2021 £m	2020 £m
AA	–	21
A	–	102
BBB	–	237
	–	360

Details about the methods and assumptions used to fair value debt securities are provided in note 27 to the consolidated financial statements. Under the fair value hierarchy, **£nil** of the investments in debt securities are classified as level 1 financial assets (2020: £3m) and **£nil** are classified as level 2 (2020: £357m).

Loss allowance

The loss allowance for debt securities at FVOCI is recognised in the income statement and reduces the fair value otherwise recognised in other comprehensive income. The loss allowance at 31 December 2021 is **£nil** (2020: £nil).

10) Current and deferred tax

Current tax

	Asset		Liability	
	2021 £m	2020 £m	2021 £m	2020 £m
To be settled within 12 months	–	4	2	–

The current tax relating to items that are (charged)/credited directly to equity is **£nil** (2020: £nil).

Deferred tax

Deferred tax for the current year is based on a rate of **24%** (2020: 19%). The following are the major deferred tax assets recognised by the Company and movements during the year:

	2021 £m	2020 £m
Depreciation in excess of capital allowances	–	5
Provisions and other temporary differences	–	(1)
Net deferred tax position at 31 December	–	4

The movement in the net deferred tax assets recognised by the Company was as follows:

	2021 £m	2020 £m
Net deferred tax position at 1 January	4	5
Amount (charged)/credited to income statement	(8)	1
Amount (charged)/credited to other comprehensive income	3	(2)
Effect of change in tax rates – income statement	2	–
Effect of change in tax rates – other comprehensive income	(1)	–
Net deferred tax position at 31 December	–	4

No deferred tax has been recognised in respect of **£153m** (2020: £18m) of deferred tax reliefs, predominantly relating to tax losses of **£115m** (2020: £7m) and capital expenditure of **£36m** (2020: £11m), due to the unpredictability of future profit streams.

Notes to the Parent Company financial statements continued

11) Other debtors and other assets

	2021 £m	2020 £m
Prepayments and accrued income – to be settled within 12 months	–	5
Total other debtors and other assets	–	5

12) Share capital

Full details of the share capital of the Company are set out in note 34 to the consolidated financial statements.

13) Tier 1 notes

Full details of the Tier 1 notes are set out in note 35 to the consolidated financial statements.

14) Issued debt

Full details of the issued debt of the Company are set out in note 37 to the consolidated financial statements.

15) Events after the reporting period

On 7 March 2022 the Company gave notice of redemption to the holders of the two floating rate Restricted Tier 1 notes. The Tier 1 notes will be redeemed at their principal amount together with accrued and unpaid interest up to (but excluding) the first call date on 27 March 2022.

Shareholder information

Further information and help

The Company's corporate website provides a range of information about the Group's heritage, social and environmental responsibilities and pre-Acquisition investor information such as the Group's financial statements, current and historic share prices, historic Annual General Meeting (AGM) materials, events, governance information and answers to frequently asked questions in respect of shareholder matters, including the Acquisition. Visit the investor website at www.rsagroup.com/investors for further information.

The Company's share register is maintained by Equiniti Limited (Equiniti). Any administrative enquiries relating to shareholdings, such as dividend payment instructions or a change of address, should be notified to:

- Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA
- Telephone: 0371 384 2048
- To securely email Equiniti with an enquiry, visit www.shareview.co.uk.

When contacting Equiniti, please quote your shareholder reference number which can be found on your share certificate or dividend documents. Telephone lines are open 8.30am to 4.30pm (UK time), Monday to Friday, excluding public holidays in England and Wales. Shareholders with a text phone facility should use +44(0) 371 384 2255 or use the Text Relay service by dialling 18001 0121 415 7064 directly from the text phone.

Managing your shareholding

Information on how to manage your shareholding can be found at www.shareview.co.uk. Amalgamation of accounts Shareholders who receive duplicate sets of Company mailings owing to multiple accounts in their name may contact Equiniti to request that their accounts be amalgamated.

Electronic communications

You can elect to receive email notification of shareholder communications by registering at www.shareview.co.uk, where you can also set up a bank mandate to receive dividends directly to your bank account and submit proxy votes for shareholder meetings. Shareholders may elect to receive a printed copy of the Annual Report and Accounts at any time by contacting Equiniti. Additionally, if you wish to register for the Company's investor news service to receive the latest news and press releases by email, visit www.rsagroup.com/news.

Low-cost share dealing facilities

Shareholders may purchase or sell their RSA Preference Shares through their stockbroker, a high street bank or one of the providers detailed below. Equiniti offers a telephone and internet dealing service. Commission is 1.5% (rate quoted as at 11 March 2022 and may be subject to change) on amounts up to £50,000 and 0.25% on the excess thereafter, with a minimum charge of £60 for telephone dealing and £45 for internet dealing. For telephone sales, call +44(0) 345 6037 037. Lines are open 8.30am to 5.30pm (UK time), Monday to Friday, excluding public holidays in England and Wales. For internet sales log on to www.shareview.co.uk/dealing. Please quote your shareholder reference number.

Preference Share Dividends

Shareholders are encouraged to have their dividends paid directly into their bank account. It is a more secure and faster way to receive dividend payments, with cleared funds available to shareholders on the dividend payment date. Shareholders who have their dividends paid directly into their bank account receive annual dividend confirmations once a year, showing payments received in the respective tax year. Alternatively, individual dividend confirmations are available upon request. To take advantage of this convenient method of payment, visit www.shareview.co.uk or contact Equiniti.

Financial calendar

10 March 2022

Ex-dividend date for the first preference dividend for 2022

11 March 2022

Record date for the first preference dividend for 2022

1 April 2022

Payment date for the first preference dividend for 2022

3 August 2022*

Announcement of the half-year results for the six months ended 30 June 2022

11 August 2022*

Ex-dividend date for the second preference dividend for 2022

12 August 2022*

Record date for the second preference dividend for 2022

1 October 2022*

Payment date for the second preference dividend for 2022

* Provisional date

**Share register fraud:
protecting your investment**

UK law requires that our shareholder register is available for public inspection. We are unable to control the use of information obtained by persons inspecting the register. Details of any share dealing facilities that the Company endorses will be included in Company mailings or on our website. Always be wary if you're contacted out of the blue (by telephone, email, post or in person) and pressured to invest quickly or promised returns that sound too good to be true. Shareholders are advised to be wary of any unsolicited advice, offers to buy shares at a discount, or offers of free reports about the Company. If you receive any unsolicited advice, make sure you get the correct name of the person and organisation and check that they are appropriately authorised by the FCA by visiting www.fca.org.uk/scamsmart. It is advisable to check the URL on websites and check the contact details of a firm in case it's a 'clone firm' pretending to be a real firm, such as your bank or a genuine investment firm. More information on protecting your investment can be found at www.fca.org.uk/consumers. If you do receive a fraudulent approach, please advise the FCA using the share fraud reporting form at www.fca.org.uk/scams or call the FCA Consumer Helpline on 0800 111 6768.

Tips on protecting your shares

- Keep any documentation that contains your shareholder reference number in a safe place and destroy any documentation you no longer require by shredding.
- Inform Equiniti promptly when you change your address.
- Be aware of dividend payment dates and contact Equiniti if you do not receive your dividend cheque or, better still, make arrangements to have the dividend paid directly into your bank account.
- Consider holding your shares electronically in a CREST account via a nominee account or in the Corporate Sponsored Nominee.



Printed at Pureprint Group, ISO 14001.
FSC® certified and CarbonNeutral®.

Both manufacturing mill and the printer are registered to
the Environmental Management System ISO4001 and are
Forest Stewardship Council® (FSC) chain of custody certified.

Designed and produced by **Friend** www.friendstudio.com

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