2019 PRELIMINARY RESULTS

RSA Insurance Group plc — 27 February 2020

Strong results for 2019

- **Total Group profits up on all measures**
- **Record current year underwriting profit, up by £229m**

Excluding exit portfolios[1]:

- **Group underwriting profit £405m, combined ratio 93.6%**
- **Underlying EPS 44.5p per share, return on tangible equity 16.0%**
- **UK & International region underwriting profit £144m; combined ratio 95.0%**

Statutory profit before tax £492m, impacted by exits and other charges

Dividends 23.1p per share, up 10% (final dividend 15.6p)

Stephen Hester, RSA Group Chief Executive, commented:

"We are pleased to report strong results for RSA in 2019. Our profits are up, our dividends are up and return on tangible equity is very good. This progress is driven by improved underwriting, which has produced record current year profits and combined ratio.

2019 was an important period for RSA. Significant management renewal and a repositioning of our UK & International division are showing good promise. Our Groupwide focus on underwriting improvement with strong cost control proved effective. Yet there is plenty more we can do to improve each of our businesses for customers and shareholders. There are challenges, but we are determined to drive further progress and high performance."

Trading results

- Underlying profit before tax £624m ex. exits (£565m incl. exits). Statutory profit before tax £492m was up 3% despite the impact of exits and other charges (2018: £480m)
- Group business operating result £656m profit (ex. exits): Scandinavia £286m; Canada £159m; UK & International £279m (£220m incl. exits). Total Group business operating result £597m profit (2018: £517m)
- Group underwriting profit of £405m (ex. exits). Total Group underwriting profit £346m (2018: £250m); current year underwriting profit of £314m up £229m vs. 2018
- Group combined ratio of 93.6% (ex. exits): Scandinavia 87.4%; Canada 94.5%; UK & International 95.0%. Group combined ratio (incl. exits) 94.6%; UK & International 97.1%
  - Group attritional loss ratio[2] improved 1 point vs. 2018
  - Group weather costs 2.6% of premiums (2018: 3.7%)
  - Large losses 9.7% of premiums (ex. exits), total 10.0% (2018: 11.6%)
  - Group prior year loss ratio 0.8% benefit (ex. exits), total 0.6% benefit (2018: 2.6% benefit)

[1] Excluding UK&I exit portfolios, refer to pages 32 to 41 for further information
[2] At constant FX and ex. changes in reinsurance, refer to pages 32 to 41 for further information

- Net written premiums ('NWP') of £6,417m, down 1%[1] vs. 2018 (down 2%[2] underlying but broadly flat[2] ex. exits):
  - NWP up 1%[2] in Scandinavia
  - NWP up 3%[2] in Canada
  - NWP down 7%[2] in UK & International as underwriting and rating actions take effect (exits account for c.5 points of the reduction)
- Group written controllable costs £1,346m (2018: £1,343m). Earned controllable cost ratio 20.9%
- Investment income of £306m (2018: £322m) down 5% as expected
- Other charges of £73m include £19m for completion of the UK Legacy sale contracted in 2017 (capital accretive), £15m of accounting impact from a reduction in the discount rate on long-term insurance liabilities in Denmark, and UK restructuring charges of £27m. Losses on UK & International exit portfolios were £59m
- Statutory profit after tax £383m (2018: £372m)
- Underlying EPS 44.5p excluding exits (inc. exits: 2019: 39.4p; 2018: 34.1p), statutory earnings per share 32.6p (2018: 31.8p)
- Final dividend of 15.6p per ordinary share proposed, bringing total dividends for 2019 to 23.1p, up 10% (2018: 21.0p). Payout of underlying EPS (ex. exits) of 52%. Target dividend payout range raised from 40-50% to 50-60% from 2020.

Capital & balance sheet

- Solvency II coverage ratio of 168%[3] (31 December 2018: 170%), above 130-160% target range
- Tangible equity £2.91bn up 1% (31 December 2018: £2.87bn), 282p per share. Shareholders' equity £3.87bn (31 December 2018: £3.79bn)
- Underlying return on tangible equity of 16.0% excluding exits (14.2% inc. exits), in the upper part of 13-17% target range
- IFRS pension surplus £211m (31 December 2018: £182m).

Strategic and market update

- RSA's focus is on building capabilities to outperform in our markets. This drives many continuing initiatives – targeted at customer service, underwriting and costs
- RSA's particular task for 2019 was to sustain momentum in the large parts of our business that already perform well whilst applying determined actions to improve elsewhere.
  - Our Personal Lines businesses (57% of premiums in 2019) achieved an 88.5% combined ratio for 2019 (ex. exits), sustaining their previous excellence
  - Across our Commercial Lines businesses the current year combined ratio improved by 6 points to 100% (98.6% ex. exits). This was driven by re-underwriting and re-pricing business where needed or lapsing if necessary; we exceeded the pricing and underwriting actions targeted for 2019 which should give further improvements in 2020. However, results in Canada and Denmark remained poor, though are expected to improve sharply in 2020

[1] At constant FX
[2] At constant FX and excluding changes in reinsurance, refer to pages 32 to 41 for further information
[3] The Solvency II capital position at 31 December 2019 is estimated

  - Underwriting capabilities continue to receive intensive focus across the Group. These include more sophisticated and agile pricing models, underwriter training and portfolio discipline and technology driven insights

- In our 2018 Preliminary Results, we confirmed London Market portfolio exits and other business lapses targeted at reducing unprofitable business and risk exposures by c.£250m vs. 2017 NWP baseline. This has been substantially accomplished and just c.£15m of earned premium remains to run-off. The validity of these decisions was borne out by exit losses and competitor experience in similar lines in 2019.
- Our UK & International business significantly restructured its management team and operating structure in 2019 with gratifying early results. A programme targeted at removing >£50m costs annually by 2021 is well advanced, with related restructuring costs of c.1.3x (£27m restructuring charge booked in 2019 with the remainder to come in 2020).

Market conditions

- Insurance market conditions are competitive across our territories with significant price/ volume trade-offs. However, rate hardening and capacity adjustment is helping us re-price in Canada and in previously loss-making international business lines
- Financial market conditions are volatile, driven by political developments and their knock-on to monetary and economic trends. RSA is relatively well protected with conservative investment portfolios and a broad array of internationally derived profits. However, bond yields fell c.20-50bps in 2019. This will reduce future investment income in addition to its 'pull to par' impact on capital usage. FX movements also have a translation effect on RSA, costing c.2% at underwriting profit level in 2019 compared to the prior period with similar impact likely again in 2020. The UK's Brexit process is not expected to materially impact RSA beyond any financial market effects.

MANAGEMENT REPORT – KEY FINANCIAL PERFORMANCE DATA

Management basis

£m (unless stated)	***FY 2019 ex. exits***	**FY 2019**	FY 2018
Profit and loss			
Group net written premiums	*6,400*	6,417	6,470
Underwriting profit ◊	*405*	346	250
Combined operating ratio ◊	*93.6%*	94.6%	96.2%
Investment result ◊	*263*	263	275
Business operating result ◊	***656***	**597**	517
Profit before tax	*551*	492	480
Underlying profit before tax ◊	***624***	**565**	492
Profit after tax		383	372
Metrics			
Earnings per share (pence)		32.6p	31.8p
Underlying earnings per share (pence) ◊	***44.5p***	**39.4p**	34.1p
Interim dividend per ordinary share (pence)		7.5p	7.3p
Final dividend per ordinary share (pence)		15.6p	13.7p
Total dividend per ordinary share (pence)		23.1p	21.0p
Return on tangible equity (%) ◊		11.7%	11.8%
Underlying return on tangible equity (%) ◊	***16.0%***	**14.2%**	12.6%

	31 Dec 2019	31 Dec 2018
Balance sheet		
Net asset value (£m)	3,872	3,786
Tangible net asset value (£m) ◊	2,910	2,867
Net asset value per share (pence) ◊	363p	357p
Tangible net asset value per share (pence) ◊	282p	279p
Capital		
Solvency II surplus (£bn)	1.2	1.2
Solvency II coverage ratio	168%	170%

◊ **Alternative performance measures:**

The Group uses Alternative Performance Measures (marked ◊ throughout), including certain underlying measures, to help explain business performance and financial position. Where not defined in the body of this announcement, further information is set out in the appendix on pages 32 to 41.

CHIEF EXECUTIVE'S STATEMENT

2019 was a pleasing year for RSA with total Group profits up on all measures. We report new records in both the current year underwriting result and combined ratio. Underlying earnings per share[1] grew to 44.5p and underlying return on tangible equity[1] to 16.0%, despite headwinds from low interest rates and FX. Dividends increase 10% to 23.1p/share for 2019.

RSA's results come in the context of our consistent strategy, to focus on core markets and seek to improve operational capabilities towards 'best in class' levels. While we have much yet to do in pursuit of these ambitions, each of our three regions contributed well to 2019 results. In particular the repositioning of our UK & International region showed good progress with underwriting profits[1] of £144m. The costs of this repositioning – losses on exit portfolios and cost restructuring charges – impacted results at a statutory level however.

Strategy and Focus

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

Our disciplined strategy has enabled important improvements to customer service, underwriting skills and cost effectiveness in recent years. These improvements are driven by significant development of our capabilities and performance culture, as well as in our technology and data science tools. As a result, RSA has recorded its three best underwriting results this century over the last four years.

The Group's only 'down year' since 2013 came in 2018, driven particularly by marketwide losses and weaknesses in the London market portfolios of our UK & International division. In response, we announced the exit of c.£250m of business (NWP) which has been substantially completed. Extensive changes to leadership and management structure in this division were also made and a new programme is well advanced to bring structural costs down further.

Customers

Serving customers well is RSA's raison d'être. For over 300 years we have built our brands and reputation in this way. Modern times bring heightened demands and expectations from our customers. These range from digital delivery of services, to help with new or changing areas of risk such as cyber and climate change. We are committed to doing all we can to improve and to serve customers well.

Across the Group, where our underwriting is stable and producing the expected results, customer retention and satisfaction levels are generally high and even improving. Conversely, when loss challenges require adjustments to pricing or underwriting conditions, we experience more challenges with service and retention. Many initiatives continue across our business, using technology and data science, to serve customers better. And we are striving to meet rising customer expectations with competitive services that deliver good outcomes.

Market Conditions

General insurance markets are relatively mature, consolidated and stable, though with natural intrinsic volatility. Strong levels of competition mean that profitable growth opportunities are modest, and require a continuous focus on strong underwriting discipline and cost efficiency. Nevertheless, well managed companies do produce returns well above cost of capital and

[1] *Excluding UK&I exit portfolios, refer to pages 32 to 41 for further information*

RSA is clearly in that position. Despite competition, in those market segments challenged by negative loss trends, pricing has increased in 2019 which is helpful. Climate change is a key issue for insurers with heightened weather losses seen, notably in North America and certain international business lines.

Insurers are exposed to financial markets, and through them to political and macro-economic challenges, despite insurance services themselves being relatively insensitive to GDP changes. 2019 saw yield declines in most bond markets off already low levels, which produces further income headwinds for insurers. It is striking that investment income made up c.90% of RSA operating profit in 2010 vs well under 50% today. The intense focus on improving underwriting margins has been a very necessary one. Similarly, since c.75% of RSA's profits come from international business, Sterling's strength post UK election produces an earnings translation challenge for 2020, though our individual business units are well matched in currency terms.

<u>2019 Actions</u>

It was a busy year for RSA. Right across the business, improvement programmes continue in pursuit of "best in class" ambitions. They span customer service, underwriting & claims, cost efficiency, technology and people performance. Superimposed on these programmes were decisive actions to address problem areas from 2018 and correct performance. We are encouraged by the results to date.

Management: An important feature of 2019 was senior management change – to reward success and to bolster areas needing better performance. We recruited Charlotte Jones as Group CFO, Scott Egan moved to CEO UK&I Region and Ken Norgrove moved from CEO Ireland to CEO Scandinavia. In their regional executive committees there was also significant change. Christian Baltzer has joined as CEO Codan Denmark, new CEOs of Ireland, Middle East and Europe were hired as was a new Group HRD and head of UK Personal Lines. It is an important measure of RSA's progress that we are able both to internally develop leaders and to hire talented people from outside successfully. And beneath these changes, throughout the organisation professional development and performance delivery are advancing as part of our culture.

RSA's culture is also advancing in other ways. We have met two key diversity & inclusion targets in 2019 – over 33% of the senior management group are now female, as are 40% of my direct reports.

Underwriting & Pricing: At the heart of our business sit the data science driven disciplines of underwriting and claims handling. Every year we seek to move these forward, using modern techniques of analytics and AI, as well as focus on skills and training.

In general our Personal Lines capabilities are in a good place but need continued investment. Exceptions are motor underwriting in the UK where technology driven retooling is underway; and in parts of Canada where claims inflation challenges, especially weather related, are driving further action.

In Commercial Lines we saw the greatest re-underwriting activity in 2019 in addition to substantially completing the UK portfolio exits announced last year. In terms of actions taken, the year went even better than planned. However, while UK & International results improved strongly, Canada and Denmark remained disappointing and further action will need to continue into 2020.

Our additional reinsurance covers for 2019 proved valuable in both Canada and Scandinavia, though a better weather year at Group level meant no recoveries for our GVC layer. The coverage for 2020 is substantially unchanged.

Cost Efficiency & Technology: Data science and technology advancement are at the heart of all we do. We are progressively implementing "backbone" IT platform replacements in all regions whilst pursuing many smaller enhancements. Spend is likely to continue in excess of historic depreciation levels. Technology and better ways of working drive our efficiency efforts, whilst also enabling better underwriting and customer service. Cost efficiency is absolutely vital for any mature, competitive industry. RSA's record is very good in this regard. However, our top line reductions in the UK necessitate a further targeted programme of >£50m p.a. cost saving by end 2021, which is well advanced.

Financial Results 2019: It was a strong year for RSA with total Group profits up on every measure. The best indicator of ongoing performance levels are our underlying results (ex. exits). These show EPS at 44.5p and return on tangible equity of 16.0% (vs 13-17% target). Statutory profit after tax was up 3% despite the impact of exits and restructuring costs in the UK. Proposed dividends are up 10% to 23.1p/share.

Driving our Group results were strong underwriting profits of £405m and combined ratio ('COR') of 93.6% (ex. exits). These were achieved on flat premium income with improvements in each of attritional loss ratio, weather and large loss costs, but a reduction in prior year development.

On a geographic basis, the highlight was a major improvement in our UK & International results, to a combined ratio of 95.0% (ex. exits). Canada improved sharply to 94.5%, Scandinavia was as usual the largest contributor (87.4% COR), though held back by poor Danish Commercial lines results.

The repositioning of RSA's UK&I region in 2019 has driven some significant costs for exit portfolios and restructuring of expense base. Those actions make us more valuable going forward and have been absorbed by our organic capital generation.

Dividends: We propose total dividends for 2019 of 23.1p/share, up 10%. This represents an 52% payout of underlying EPS (ex. exits), above our 40-50% policy range. Our strong capital position and organic capital generation support this, despite the costs of 'below the line' items and bond 'pull to par'. Reflecting the improvements of recent years in RSA's performance and resilience, we are also increasing our target dividend payout range to 50-60% of underlying EPS.

Looking Forward

RSA's focused regional strategy is working well. Our ambition to drive towards "best in class" performance levels remains in place and we are optimistic about the ability of our business to improve further to that end. We target progress in each of our three regions in 2020. We have headwinds from lower investment income and adverse FX translation, but believe that EPS growth overall is again in prospect, subject to normal underwriting volatility.

Thanks

RSA could not perform well for stakeholders, without their heartening and reciprocal support – for which we are very grateful. While customers and shareholders are our primary audience, we are also determined to serve the broader interest of RSA well. All we achieve is driven by the efforts of RSA's people. I am proud to work with and to lead this group. And my sincere thanks go to them for 2019's efforts.

Stephen Hester
Group Chief Executive
26 February 2020

MANAGEMENT REPORT
SEGMENTAL INCOME STATEMENT

Management basis – 12 months ended 31 December 2019

	Scandi -navia £m	Canada £m	*UK&I ex. exits £m*	*UK&I exit portfolios[1,2] £m*	UK&I total[2] £m	Central functions[2] £m	***Group ex. exits £m***	**Group FY19 £m**	**Group FY18 £m**
Net written premiums	**1,764**	**1,735**	***2,864***	***17***	**2,881**	**37**	***6,400***	**6,417**	**6,470**
Net earned premiums	1,767	1,723	*2,893*	*88*	2,981	(9)	*6,374*	6,462	6,537
Net incurred claims	(1,233)	(1,176)	*(1,773)*	*(108)*	(1,881)	(42)	*(4,224)*	(4,332)	(4,480)
Commissions	(65)	(209)	*(534)*	*(24)*	(558)	1	*(807)*	(831)	(886)
Operating expenses	(246)	(244)	*(442)*	*(15)*	(457)	(6)	*(938)*	(953)	(921)
Underwriting result ◊	**223**	**94**	***144***	***(59)***	**85**	**(56)**	***405***	**346**	**250**
Investment income	87	69	*150*	-	150	-	*306*	*306*	322
Investment expenses	(2)	(2)	*(8)*	-	(8)	-	*(12)*	*(12)*	(14)
Unwind of discount	(22)	(2)	*(7)*	-	(7)	-	*(31)*	*(31)*	(33)
Investment result ◊	**63**	**65**	***135***	**-**	**135**	**-**	***263***	***263***	**275**
Central expenses	-	-	-	-	-	(12)	*(12)*	(12)	(8)
Business operating result ◊	**286**	**159**	***279***	***(59)***	**220**	**(68)**	***656***	**597**	**517**
Interest								(32)	(25)
Other charges								(73)	(12)
Profit before tax								**492**	**480**
Tax								(109)	(108)
Profit after tax								**383**	**372**
Non-controlling interest								(24)	(23)
Other equity costs[3]								(23)	(23)
Net attributable profit ◊								**336**	**326**
Loss ratio (%)	69.8	68.2	*61.3*		63.1		*66.3*	67.0	68.5
Weather loss ratio	*0.4*	*5.0*	*2.3*		2.5		*2.5*	*2.6*	*3.7*
Large loss ratio	*7.8*	*8.0*	*10.4*		11.2		*9.7*	*10.0*	*11.6*
Current year attritional loss ratio ◊	*63.4*	*56.0*	*48.7*		49.1		*54.9*	*55.0*	*55.8*
Prior year effect on loss ratio	*(1.8)*	*(0.8)*	*(0.1)*		*0.3*		*(0.8)*	*(0.6)*	*(2.6)*
Commission ratio (%)	3.7	12.1	*18.4*		18.7		*12.6*	12.9	13.6
Expense ratio (%)	13.9	14.2	*15.3*		15.3		*14.7*	14.7	14.1
Combined ratio (%)◊	**87.4**	**94.5**	***95.0***		**97.1**		***93.6***	**94.6**	**96.2**
Controllable expense ratio (%)[4] ◊	21.7	16.9	*22.5*		22.5		*20.9*	20.9	20.4

Notes:

UK & International comprises the UK, Europe, Ireland and Middle East. Refer to page 28 for comparatives.

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

Premiums

Net written premiums ('NWP') of £6,417m were down 1% in the period at constant FX. Underlying premiums were down 2%[1] when adjusted for reinsurance changes but broadly flat[1,2] excluding the exit portfolios.

Group retention remained strong at 80% (2018: 80%). We are pleased to report improvements across Scandinavia, and in UK Personal Lines. In Commercial Lines, retention was down in the UK and Canada, where we have been taking the most rating and underwriting action.

Regional trends for 2019 include:

- Scandinavian premiums were flat or up 1% excluding changes in reinsurance, both at constant FX. Personal Lines premiums were flat[1 3] and included underlying growth of 2% in Sweden. Premiums were up 2%[1] in Commercial Lines. Rate was ahead of our plans and last year, but was dampened by a reduction in volumes as higher retention was more than offset by lower new business
- Premiums grew 3% in Canada at constant FX. This was driven by 6%[1] growth in Personal Lines led by Johnson. We achieved high single-digit rate and hard market conditions meant that retention remained strong at c.90% for Johnson. Overall, policies-in-force (PIFs) were up 4% in Johnson with continued organic growth supplemented by our new partnership with Scotiabank commencing in the spring. Premiums in Commercial Lines decreased by 4%[1] where a reduction in volumes was partly offset by strong rate. Lower volumes were driven by targeted lapses and were in line with our plans
- Premiums were down 7% in the UK & International region at constant FX. Exits accounted for c.5 points of the reduction. UK Personal Lines premiums were down 11% in the period, with exits driving c.1.5 points of the reduction. Household was down 10% with the sale of Oak Home accounting for c.3 points of the reduction. Importantly, we have continued to achieve good rate increase through our Household book. Motor and Pet premiums also decreased. Commercial Lines premiums (which now exclude Europe which is reported separately) were down 7%[1] excluding reinsurance changes, but up c.5%[1 2] excluding exits; rate was positive in all major lines of business, although this impacted retention. Premiums in Europe were down 7%[1] reflecting the reshaping of the portfolio. Irish premiums increased by 6%[1] helped by strong new business in Personal Motor. In the Middle East, premiums were down 5%[1] largely due to lower volumes in Commercial Lines and rating pressure in Personal Lines
- Net written premiums in the UK & International exit portfolios were £17m. Net earned premiums were higher at £88m reflecting the ongoing run-off of exposures. Earned premiums will reduce significantly to c.£15m in 2020.

More detail is provided in the regional reviews on pages 16 to 21.

[1] At constant FX and excluding changes in reinsurance, refer to pages 32 to 41 for further information
[2] Excluding UK & International exit portfolios, refer to pages 32 to 41 for further information
[3] Excluding a one-off adjustment in Swedish Personal Accident in Q1 2018

Underwriting result

Total Group underwriting result:

£m	Current year UW ◊		Prior year UW ◊		Total UW result ◊	
	FY 2019	**FY 2018**	**FY 2019**	**FY 2018**	**FY 2019**	**FY 2018**
Scandinavia	202	182	21	56	223	238
Canada	80	(21)	14	46	94	25
UK & International	85	(111)	-	68	85	(43)
UK & International ex. exits	*131*		*13*		*144*	
Central functions	(53)	35	(3)	(5)	(56)	30
Total Group	**314**	**85**	**32**	**165**	**346**	**250**
Total Group ex. exits	***360***		***45***		***405***	

- The Group attritional loss ratio of 55.0% was 1[1] point better than 2018. The ratio improved by 0.4[1] points in Scandinavia, with improvements in Danish Personal and Norway, partly offset by Danish Commercial for which action plans are in place to address. In Canada, the attritional loss ratio improved by 2.1 points and was better across all major lines. In particular, Personal Auto was c.2 points better as rate and claims initiatives started to impact. Property also showed pleasing improvements. The UK & International attritional loss ratio improved by 1.2[1] points. In the UK, improvements in Household, Pet, and Commercial Property were partly offset by an increase in Motor. Household improved by 2.5 points reflecting the actions taken to address the 'escape of water' claims inflation issue which presented in 2017
- Weather losses amounted to £167m or 2.6% of net earned premiums (2018: 3.7%; five year average: 2.9%[2]). Overall, weather for the year was around half a point better than our expectations, with experience in H2 relatively benign at 2.0% of premiums. This compares to 3.2% reported for H1 which included heavy experience in Canada
- Large losses were £645m or 10.0% of net earned premiums (2018: 11.6%; five year average: 10.0%[2]). This was 9.7% excluding UK&I exit portfolios. All regions reported improvements vs 2018 with Scandinavia and Canada each around 1 point better, and the UK & International 3 points better
- Reinsurance: The retentions were not reached in 2019 on the Group Volatility Cover ('GVC'). However, we made recoveries of £15m and £17m on our regional aggregate covers in Canada and Scandinavia respectively. Please see page 27 for further details of our reinsurance covers for 2020.

Group prior year profit of £45m provided a 0.8 point benefit excluding exits to the combined ratio (0.6 points inc. exits; 2018: 2.6 points; five year average: 2.0%). This included positive development from each of our three regions (ex. exits), although negative development in UK Personal Lines dampened this in the UK & International. Overall Group PYD for the year was impacted by a flat first quarter which included negative prior year development in Commercial Lines arising from refinements to loss estimates relating to the 2018 accident year.

Our assessment of the margin in reserves for the Group (the difference between our actuarial indication and the booked reserves in the financial statements) remains at its target level at c.5% of best estimate claims reserves.

[1] *At constant FX and excluding changes in reinsurance, refer to pages 32 to 41 for further information*
[2] *2015 - 2019*

Underwriting operating expenses

The Group underwriting expense ratio of 14.7% increased as expected. Scandinavian and Canadian expense ratios increased slightly vs 2018, while the expense ratio in UK & International increased by 1 point, in line with expectations and reflecting the contraction in premiums. We have commenced a further UK focused cost programme to address this (see further details below).

Commissions

The Group commission ratio of 12.9% decreased by 0.7 points (2018: 13.6%), mainly due to a higher proportion of Personal Lines in net earned premiums.

Investment result

The investment result was £263m (2018: £275m) with investment income of £306m (2018: £322m), investment expenses of £12m (2018: £14m) and the liability discount unwind of £31m (2018: £33m).

Investment income was down 5% on prior year, primarily reflecting the impact of reinvestment at lower yields which was partly offset by increased income from actions taken on the portfolios to increase exposure to less liquid credit investments. The average book yield across our major bond portfolios was 2.1% (2018: 2.3%).

Based on current forward bond yields and FX rates, it is estimated that investment income will be c.£255-270m for 2020, c. £240-255m for 2021, and c.£235-250m for 2022. The discount unwind is expected to be c.£30m per annum and investment expenses c.£14m per annum.

Controllable costs

Group written controllable costs were £1,346m (2018: £1,343m). This comprised 2% cost reductions, offset by 2% inflation. At CFX and gross of inflation, Scandinavia written controllable costs of £379m were flat vs 2018, Canada (£294m) was 2% lower, and UK & International (£667m) was 2% lower.

The earned controllable expense ratio of 20.9% was up slightly versus 2018 (20.4%) mainly due to UK&I business exits. The ratio is down by c.3.5[1] points since 2013 and our ambition of an earned controllable expense ratio of less than 20% is unchanged.

Group FTE[2] was 12,378 at 31 December 2019, down 25% (excluding disposals) since the beginning of 2014.

We have commenced a new cost reduction programme in our UK business. This is targeting the removal of >£50m costs by 2021. Associated restructuring costs of c.1.3x are expected, with £27m booked in 2019 and the remainder to be booked in 2020.

Earned controllable expense ratio: ◊	Scandinavia %	Canada %	*UK&I ex. exits %*	UK&I total %	***Group ex. exits %***	**Total Group %**
FY 2019	**21.7**	**16.9**	***22.5***	**22.5**	***20.9***	**20.9**
FY 2018	21.1	17.3		21.4		20.4

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

Other items

Interest costs:

- Interest costs were £32m (£46m including the Tier 1 securities), up from £25m in 2018. The increase reflects changes to lease accounting (IFRS 16), mainly on properties
- Coupon costs of £14m (2018: £14m) for the 2017 Tier 1 securities are presented at the bottom of the management P&L as 'other equity costs'. Under IFRS, these are recognised in the statement of changes in equity.

Other charges:

£m	FY 2019	FY 2018
Net gains/ losses/ FX	(23)	20
Amortisation	(12)	(13)
Pension net interest cost	4	(6)
Restructuring costs	(27)	-
Changes in economic assumptions	(15)	-
Other	-	(13)
Total ◊	**(73)**	**(12)**

- Net losses of £23m in 2019 included £19m of final costs relating to the disposal of UK Legacy liabilities to Enstar Group Limited. This follows the sanction of the Part VII transfer of these liabilities by the High Court of Justice of England and Wales on 13 June 2019. The completion of this transaction provided a net benefit to capital
- £27m of restructuring charges were incurred relating to the cost reduction programme that has commenced in the UK business (see previous page for further details)
- Changes in economic assumptions represents £15m for the accounting impact of a reduction in the discount rate in H1 on long-term insurance liabilities in Denmark.

Tax

The Group reported a tax charge of £109m for 2019, giving an effective tax rate ('ETR') of 22% (2018: 23%). The tax charge largely comprises tax on overseas profits. The Group's ETR of 22% is higher than the UK statutory rate of 19% mainly due to higher tax rates in some of the Group's core overseas jurisdictions and withholding taxes. The Group underlying tax rate for 2019 was 20% (2018: 20%). Excluding UK&I exited business the Group underlying tax rate for 2019 was 19%.

The carrying value of the Group's deferred tax assets at 31 December 2019 was £209m (31 December 2018: £234m), of which £180m (31 December 2018: £189m) are in the UK. The decrease in the Group's deferred tax assets in 2019 was largely due to accelerated tax depreciation in Canada and a small reduction in the UK deferred tax asset reflecting lower investment income outlook. At expected tax rates, a further £254m (31 December 2018: £260m) of deferred tax assets remain available for use but not recognised on balance sheet; these are predominantly in the UK and Ireland. The carrying value of the Group's deferred tax liabilities at 31 December 2019 was £84m (31 December 2018: £79m), the majority of which are in Sweden and Denmark.

For 2020 we expect the Group's ETR and underlying tax rate to continue to be in the region of 20%, given the scale of unrecognised UK and Irish tax assets.

Dividend

We are pleased to declare a final dividend of 15.6p per ordinary share (2018: 13.7p). Together with the interim dividend of 7.5p, this brings the total dividend for the year to 23.1p (up 10%), representing a payout of 52% of underlying EPS (ex. exits). This is above our 40-50% policy range, supported by our strong capital position and organic capital generation, despite the costs of ‘below the line’ items and bond ‘pull to par’.

Reflecting the improvements of recent years in RSA’s performance and resilience, we are also increasing our target dividend payout range to 50-60% of underlying EPS.

Outlook

RSA is targeting further progress in 2020. We expect to sustain a consistent strategy and operational focus and to work towards our unchanged financial targets.

At this early stage of the year we are assuming insurance market conditions broadly comparable to 2019. Using current bond yields, investment income is expected to be £255-270m in 2020 (see guidance on page 11), and current FX rates imply a 2% headwind in £ terms on operating profits versus 2019.

We expect Net Written Premiums to be similar in 2020 vs 2019 at constant FX, and Net Earned Premiums slightly lower reflecting residual earn through of 2019 actions.

Subject to natural loss ratio volatility, we target improved underwriting profit overall and from each region.

BALANCE SHEET

Movement in Net Assets

	Share-holders' funds[1] £m	Non-controlling interests £m	Tier 1 notes £m	Total equity £m	Loan capital £m	Equity & loan capital £m	TNAV ◊ £m
Balance at 1 January 2019	**3,786**	**168**	**297**	**4,251**	**441**	**4,692**	**2,867**
Profit after tax	359	24	-	383	-	383	443
Foreign exchange losses net of tax	(79)	(6)	-	(85)	-	(85)	(63)
Fair value gains net of tax	122	-	-	122	-	122	122
Pension fund losses net of tax	(86)	-	-	(86)	-	(86)	(86)
Repayment of loan capital	-	-	-	-	(39)	(39)	-
Share based payments & share issue	14	-	-	14	-	14	14
Prior year final dividends	(141)	(13)	-	(154)	-	(154)	(141)
Interim dividend	(78)	-	-	(78)	-	(78)	(78)
Other equity costs[2]	(23)	-	-	(23)	-	(23)	(23)
Goodwill and net intangible additions	-	-	-	-	-	-	(143)
Other	(2)	-	-	(2)	-	(2)	(2)
Balance at 31 December 2019	**3,872**	**173**	**297**	**4,342**	**402**	**4,744**	**2,910**
Per share (pence) ◊							
At 1 January 2019	**357**						**279**
At 31 December 2019	**363**						**282**

Tangible net assets increased by 1% to £2.91bn at 31 December 2019.

The increase was driven by profit after tax of £443m[3] and positive fair value mark-to-market movements of £122m, mainly reflecting tightening credit spreads and falling bond yields. Tangible net assets were reduced by payment of the 2018 final dividend (£141m) and 2019 interim dividend (£78m), together with investment of £143m in intangible assets which were primarily IT related (net investment of £59m after amortisation of £84m shown as part of profit).

The pension schemes generated a loss of £86m in net asset terms and this was primarily as a result of tighter 'AA' corporate bond spreads, by which liabilities are discounted. The IAS 19 surplus at 31 December 2019 was £211m, please see page 26 for more details.

TNAV per share increased by 1% to 282p.

[1] Ordinary shareholders' funds including preference share capital of £125m
[2] Includes preference dividends of £9m and coupons of £14m paid on 2017 issued restricted tier 1 securities
[3] Adjusted for items relating to goodwill and intangible assets

CAPITAL POSITION

Solvency II position[1]:	Requirement (SCR) £bn	Eligible Own Funds £bn	Surplus £bn	Coverage %
31 December 2019	**1.7**	**2.9**	**1.2**	**168%**
31 December 2018	1.8	3.0	1.2	170%

The Solvency II coverage ratio[1] decreased to 168% during the period:

	%
At 1 January 2019	**170**
Underlying capital generation	27
Net capital investment	(3)
Impact of pension contributions (paid annually in Q1)	(4)
Pull-to-par on unrealised bond gains	(4)
Exit losses	(3)
Reorganisation costs	(2)
Dividends	(14)
Market movements and other	1
At 31 December 2019	**168**

Please refer to appendix (page 25) for further Solvency II details (including sensitivities).

[1] *The Solvency II capital position at 31 December 2019 is estimated*

REGIONAL REVIEW – SCANDINAVIA

Management basis

	Net written premiums FY 2019 £m	FY 2018 £m	Change CFX %	Underwriting results FY 2019 £m	FY 2018 £m	Change CFX %
Split by country						
Sweden	1,033	1,062	1	257	251	7
Denmark	606	627	(2)	(18)	6	(386)
Norway	125	128	1	(16)	(19)	17
Total Scandinavia	**1,764**	**1,817**	**-**	**223**	**238**	**(2)**
Split by class						
Household	338	362	(4)			
Personal Motor	360	364	2			
Personal Accident & Other	345	355	1			
Total Scandinavia Personal	**1,043**	**1,081**	**-**	**231**	**222**	**8**
Policy count change			*-*			
Property	317	315	3			
Liability	138	144	(3)			
Commercial Motor	204	211	-			
Other	62	66	(4)			
Total Scandinavia Commercial	**721**	**736**	**1**	**(8)**	**16**	**(155)**
Volume change			*(4)*			
Total Scandinavia	**1,764**	**1,817**	**-**	**223**	**238**	**(2)**
Investment result				63	68	(3)
Scandinavia business operating result				**286**	**306**	**(3)**

Operating ratios (%)	Claims FY 2019	FY 2018	Commission FY 2019	FY 2018	Expenses FY 2019	FY 2018	Combined FY 2019	FY 2018
Scandinavia Personal	**62.9**	63.5	**3.1**	3.0	**11.8**	12.4	**77.8**	78.9
Scandinavia Commercial	**79.8**	78.0	**4.3**	4.4	**17.0**	15.5	**101.1**	97.9
Total Scandinavia	**69.8**	69.6	**3.7**	3.5	**13.9**	13.7	**87.4**	86.8
Earned controllable expense ratio	*21.7*	*21.1*						

	FY 2019	*FY 2018*	*5 year average*
Claims ratio:			
Weather loss ratio	*0.4*	*0.4*	*0.4*
Large loss ratio	*7.8*	*8.9*	*6.8*
Current year attritional loss ratio	*63.4*	*63.3*	
Prior year effect on loss ratio	*(1.8)*	*(3.0)*	

SCANDINAVIA

The Scandinavian business operating result was strong at £286m profit, down 3%[1] on 2018. The combined ratio of 87.4% was 0.6 points higher. Personal Lines showed continued excellent performance with a combined ratio of 77.8%. Commercial Lines increased by 3.2 points to a combined ratio of 101.1% - higher attritional losses and expenses, and lower PYD contributed, while large losses were better but still elevated.

Net written premiums of £1,764m were unchanged at constant FX or up 1%[2] on an underlying basis. Personal Lines premiums were unchanged[2,3]. This included Swedish Personal Lines growth of 2%[2,3] with Household, Motor and Personal Accident all up. Mid-single digit rates and strong retention of 85% contributed.

Net written premiums increased by 2%[2] in Commercial Lines. Rate was ahead of our plans last year in all lines of business but was dampened by a 4% reduction in volumes. Higher retention was more than offset by lower new business where action to improve performance in Motor and Property has impacted premiums.

Customer metrics continue to improve. An ‘effortless’ measure determines and tracks how seamless customer interactions are against defined targets. Our Personal Lines businesses across the region continue to report scores at or close to target levels. Customer satisfaction scores improved in Denmark versus Q4 2018 and our newly introduced satisfaction measure in Sweden is near to benchmark level. Overall, retention improved to 83% (2018: 81%) and was better in all countries.

Large losses of 7.8% were better than last year (2018: 8.9%) but above the five year average of 6.8% driven by Denmark, particularly Commercial Property. Sweden and Norway both reported lower large losses vs 2019. Recoveries of £17m were made in 2019 from local aggregate reinsurance protection in Scandinavia. The attritional loss ratio of 63.4% was flat versus 2018 or around half a point better excluding the impact of 2019 reinsurance changes. Significant improvements in Norway and Danish Personal Lines were offset by Danish Commercial Lines (mainly Property) and Sweden (to support topline). We have taken strong action in Danish Commercial to re-price, re-underwrite and lower capacity where required.

Written controllable expenses were up 2%[1] in 2019, with costs flat pre-inflation. The earned controllable cost ratio of 21.7% increased by around half a point in part due to flat topline. We continue to invest in important areas of the business such as pricing sophistication, data analytics, the IT hub in Malmö and a talent acquisition hub.

Geographically, Sweden generated an underwriting profit of £257m (2018: £251m) and a combined ratio of 75% (2018: 76%) driven by lower large losses and better expenses. Denmark reported an underwriting loss of £18m (2018: £6m profit) and a combined ratio of 103% (2018: 99%). Danish Personal Lines performed well with an underwriting profit of £30m (up 9%[1]) but the result was driven by poor Danish Commercial Lines performance (as reported at the first half), with higher attritional and large losses, notably in Motor (large losses only) and Property. The underwriting loss in Norway of £16m (2018: £19m loss) included a prior year underwriting loss of £6m, while the current year performance included significantly improved attritional and large loss ratios.

[1] *At constant FX*
[2] *At constant FX and excluding changes in reinsurance, refer to pages 32 to 41 for further information*
[3] *Excluding a one-off adjustment in Swedish Personal Accident in Q1 2018*

REGIONAL REVIEW – CANADA

Management basis

	Net written premiums FY 2019 £m	FY 2018 £m	Change CFX %	Underwriting result FY 2019 £m	FY 2018 £m	Change CFX %
Household	537	512	3			
Personal Motor	708	641	8			
Total Canada Personal	**1,245**	**1,153**	**6**	**106**	**29**	**259**
Policy count change			*(2)*			
Property	212	215	(3)			
Liability	100	105	(7)			
Commercial Motor	123	127	(5)			
Marine & Other	55	52	3			
Total Canada Commercial	**490**	**499**	**(4)**	**(12)**	**(4)**	**(166)**
Volume change			*(13)*			
Total Canada	**1,735**	**1,652**	**3**	**94**	**25**	**275**
Investment result				65	59	6
Canada business operating result				**159**	**84**	**85**

Operating ratios (%)	Claims FY 2019	FY 2018	Commission FY 2019	FY 2018	Expenses FY 2019	FY 2018	Combined FY 2019	FY 2018
Canada Personal	**67.5**	72.6	**9.9**	10.9	**13.9**	13.9	**91.3**	97.4
Canada Commercial	**69.9**	68.8	**17.6**	18.2	**14.8**	13.9	**102.3**	100.9
Total Canada	**68.2**	71.5	**12.1**	13.1	**14.2**	13.9	**94.5**	98.5
Earned controllable expense ratio	*16.9*	*17.3*						

	FY 2019	*FY 2018*	*5 year average*
Claims ratio:			
Weather loss ratio	*5.0*	*6.8*	*4.7*
Large loss ratio	*8.0*	*9.4*	*7.3*
Current year attritional loss ratio	*56.0*	*58.1*	
Prior year effect on loss ratio	*(0.8)*	*(2.8)*	

CANADA

Canada delivered a pleasing business operating result of £159m profit for 2019, almost double that of last year. The combined ratio improved by 4 points to 94.5%. Personal Lines improved by c.6 points to 91.3%, helped by lower weather losses for the year (despite a heavy first half). The combined ratio in Commercial Lines was disappointing and increased by around one and a half points with flat prior year development for the year more than offsetting better (but still elevated) weather and large losses, and lower attritional claims.

Net written premiums of £1,735m increased by 3% at constant FX or 3%[1] on an underlying basis. Personal Lines reported growth of 6%[1] driven by Johnson. The rating environment was strong in 2019, and we applied rate increases of c.8% in Personal Auto and c.11% in Household. This helped to combat ongoing and significant claims inflation and build an allowance for heavier weather losses expected as a result of climate change. Hard market conditions meant that retention remained strong at c.90% for Johnson, our direct business. Personal broker reported a 6 point decrease to 83% reflecting targeted actions to improve profitability. Johnson reported organic growth of 7% and policies-in-force were up 4%. We commenced writing new business for Scotiabank in April and renewals followed in July; the partnership has so far outperformed our expectations. Premiums in Commercial Lines decreased by 4%[1] where a 13% reduction in volumes was partly offset by rate of 9%. Lower volumes were in line with our plans and mainly driven by targeted lapses. We expect to continue to prioritise profitability over volume in 2020.

Our customer metrics continue to track well, although rating action has impacted service levels throughout the year. Johnson sales and service NPS[3] was +45 in Q4, with first contact resolution for inbound calls at 93%, while our fast track process for simple low cost claims reported NPS of +53 in Q4.

While the weather loss ratio reduced by 1.8 points to 5.0%, it was again above the five year average of 4.7%. This reflected a heavy first half of the year for cat losses across the Canadian industry. Experience in the second half was more 'normal' and we benefitted from our new local aggregate reinsurance cover (overall recoveries of £15m, of which £7m relate to weather losses). The large loss ratio of 8.0% was 1.4 points better than last year but still 0.7 points above the five year average. This large loss experience impacted mainly Commercial Property.

The attritional loss ratio of 56.0% improved by 2 points in 2019 and was better across all major lines of business. Personal Auto improved by c.2 points as rate and claims initiatives started to take effect. We expect to continue to apply rate in 2020, subject to regulatory approval. Personal Property was 1.2 points better, and we saw good improvements across Commercial Auto and Property.

2019 was a busy year from a technology perspective. Guidewire Claims is now full deployed across the business and our new Claims Portal is now live for Personal Broker and Johnson providing a quicker and more efficient claims journey for our customers. Radar Live is fully deployed in all major lines and is improving the speed and efficacy of our non-regulatory rate filings.

Written controllable expenses of £294m were flat[2] versus last year, with 2% cost reductions absorbing 2% inflation. The earned controllable expense ratio of 16.9% was 0.4 points lower than last year and better than our plans. We expect the ratio to rise in 2020 as technology related amortisation builds, but to remain within our target zone of <20%.

[1] *At constant FX and excluding changes in reinsurance, refer to pages 32 to 41 for further information*
[2] *At constant FX*
[3] *Net Promoter Score*

REGIONAL REVIEW – UK & INTERNATIONAL[1]

Management basis[1]

	Net written premiums			Underwriting result		
	FY 2019 Ex. exits £m	FY 2019 Total £m	FY 2018 Total £m	*FY 2019 Ex. exits £m*	FY 2019[2] Total £m	FY 2018 Total £m
Household	*587*	587	651			
Personal Motor	*207*	207	254			
Pet	*244*	244	262			
Total UK Personal	***1,038***	**1,038**	**1,167**	***18***	**2**	**(23)**
Policy count change ex. exits	*(12)%*					
Property	*466*	479	501			
Liability	*252*	257	250			
Commercial Motor	*201*	200	194			
Marine & Other	*153*	146	221			
Total UK Commercial[1]	***1,072***	**1,082**	**1,166**	***32***	**1**	**(70)**
Volume change ex. exits	*3%*					
Total UK[1]	***2,110***	**2,120**	**2,333**	***50***	**3**	**(93)**
Europe[1]	*230*	237	256	*17*	5	(13)
Ireland	*327*	327	312	*42*	42	30
Middle East	*197*	197	199	*35*	35	33
Total UK & International	***2,864***	**2,881**	**3,100**	***144***	**85**	**(43)**
Investment result				*135*	135	148
UK & International business operating result				***279***	**220**	**105**

Operating ratios (%)	**Claims**		**Commission**		**Expenses**		**Combined**	
	FY 2019	FY 2018	**FY 2019**	FY 2018	**FY 2019**	FY 2018	**FY 2019**	FY 2018
Total UK Personal	**60.8**	63.2	**20.6**	21.0	**18.4**	17.8	**99.8**	102.0
UK Personal ex. exits							*98.4*	
Total UK Commercial[1]	**68.6**	74.0	**19.9**	21.5	**11.4**	10.3	**99.9**	105.8
UK Commercial ex. exits[1]							*96.9*	
Total UK[1,2]	**64.7**	68.7	**20.3**	21.3	**14.9**	13.9	**99.9**	103.9
UK ex. exits[1]							*97.7*	
Europe[1]	**68.1**	78.1	**14.2**	14.5	**15.3**	12.6	**97.6**	105.2
Europe ex. exits[1]							*92.6*	
Ireland	**60.2**	64.1	**11.6**	11.8	**15.3**	14.3	**87.1**	90.2
Middle East	**44.4**	45.3	**18.3**	17.6	**20.3**	20.5	**83.0**	83.4
Total UK & International[2]	**63.1**	67.6	**18.7**	19.5	**15.3**	14.3	**97.1**	101.4
UK & International ex. exits	*61.3*		*18.4*		*15.3*		*95.0*	
Earned controllable expense ratio	*22.5*	*21.4*						

Claims ratio:	*FY 19 ex exits*	*FY 19*	*FY 18*	*5 year average*	*5 year average adj.*[3]
Weather loss ratio	*2.3*	*2.5*	*5.7*	*4.3*	*c.3.0*
Large loss ratio	*10.4*	*11.2*	*14.2*	*12.9*	*c.11.0*
Current year attritional loss ratio	*48.7*	*49.1*	*50.1*		
Prior year effect on loss ratio	*(0.1)*	*0.3*	*(2.4)*		

[1] Europe, previously reported within UK Commercial, is now reported separately. 2018 comparatives have been restated.
[2] £8m of prior year GVC recoveries relating to UK&I exited business has been reallocated from Central Functions to UK&I Exits and therefore to total UK&I; [3] Adjusted for changes in UK&I business mix resulting from exits.

UK & INTERNATIONAL

The UK & International region delivered a sharply improved business operating result of £279m profit for 2019 (£220m[1] inc. exits) with a combined ratio of 95.0% (97.1%[1] inc. exits).

The UK reported an underwriting profit of £50m and a combined ratio of 97.7%, excluding exit portfolios. This was driven by better current year results offset by lower prior year development. Including exits, the COR was 99.9%[1]. Across the rest of the UK&I region performance was very strong with Europe delivering a combined ratio of 92.6% (97.6% including exits), Ireland 87.1% and the Middle East 83.0%.

UK net written premiums of £2,120m were down 9% as reported. Exits accounted for c.6 points of the reduction. Personal Lines premiums decreased by 11%; Household was down 10% with the sale of Oak Home accounting for c.3 points of this. We have continued to achieve good rate increases in Household and pleasingly new business in More Than Home doubled in 2019. Motor and Pet premiums decreased. While retention improved, new business was down as we continued to hold our discipline on rate. Commercial premiums were down 7% excluding reinsurance changes, but up c.5%[2,3] excluding exits. Rate was ahead of plan and prior year in all major lines; e.g. Commercial Property achieved rate of 6% and Marine achieved 10%. However, pricing and underwriting actions have impacted retention.

Premiums in Europe decreased by 7%[3] as a result of underwriting actions in Property and Marine. In Ireland premiums increased by 6%[3] helped by strong new business in Personal Motor, and in the Middle East premiums were down 5%[3] largely as a result of lower volumes in Commercial Lines and rating pressure in Personal Lines.

UK&I weather costs of 2.5% (2.3% ex. exits) were 3.2 points lower than 2018 with better experience across all parts of the region. Large losses of 11.2% (10.4% ex. exits) improved by 3pts versus prior year driven by UK Commercial, Europe and Ireland. The attritional loss ratio of 49.1% (48.7% ex. exits) improved by 1 point with improvements seen particularly across the UK and Europe. Within the UK, Household was 2.5 points better as strong rate earned through. Prior year development added 0.3[1] points to the COR (0.1 point benefit ex. exits) compared to a benefit of 2.4 points in 2018. This was mainly due to the impact of the Ogden discount rate change and strengthening on recent accident years including 2018. This was offset by strong positive development in Ireland and the Middle East.

The UK&I expense ratio increased by a point as expected, savings of 3% gross of inflation were offset by the impact of lower premiums. These topline reductions have necessitated a further targeted cost programme in the UK of >£50m p.a. cost saving by end 2021. This is already well advanced, and associated restructuring costs of c.1.3x are expected, with £27m booked in 2019 and the remainder to be booked in 2020.

Exit portfolios

In 2018, we announced portfolio exits and changes in underwriting appetite for our London Market business. Additional exits included two UK generalist MGA schemes and certain European branch business. This was in response to challenging market conditions as well as our own strategic reassessment. The total net written premium we targeted for exit was c.£250m against a 2017 baseline, of which substantially all has been implemented.

The underwriting loss from these portfolios was £59m[1] in 2019. Net written premiums were £17m. Net earned premiums were higher at £88m reflecting the ongoing run-off of exposures. A further c.£15m of exited premiums are expected to be earned out in 2020.

[1] £8m of prior year GVC recoveries relating to UK&I exited business has been reallocated from Central Functions to UK&I Exits and therefore to total UK&I; [2] Excluding changes in reinsurance, see pages 32 to 41 for further information; [3] At constant FX

INVESTMENT PERFORMANCE

Management basis

Investment result	**FY 2019 £m**	FY 2018 £m	Change %
Bonds	223	242	(8)
Equities	35	35	-
Cash and cash equivalents	9	10	(10)
Property	18	19	(5)
Other	21	16	31
Investment income	**306**	**322**	**(5)**
Investment expenses	(12)	(14)	14
Unwind of discount	(31)	(33)	6
Investment result	**263**	**275**	**(4)**

Balance sheet unrealised gains (pre-tax)	**31 Dec 2019 (£m)**	31 Dec 2018 (£m)	Change %
Bonds	370	272	36
Equities	1	(22)	105
Total	**371**	**250**	**48**

Investment portfolio	Value 31 Dec 2018	Foreign exchange	Mark to market	Other movements	**Value 31 Dec 2019**
	£m	£m	£m	£m	**£m**
Government bonds	3,965	(67)	36	(493)	3,441
Non-Government bonds	6,505	(243)	28	680	6,970
Cash	788	(10)	-	131	909
Equities	205	(27)	38	2	218
Property	310	-	(10)	-	300
Preference shares & CIVs	534	-	-	(79)	455
Other	249	(2)	1	90	338
Total	**12,556**	**(349)**	**93**	**331**	**12,631**
Split by currency:					
Sterling	3,114				3,567
Danish Krone	1,148				1,030
Swedish Krona	2,465				2,367
Canadian Dollar	2,928				2,901
Euro	1,423				1,474
Other	1,478				1,292
Total	**12,556**				**12,631**

Credit quality – bond portfolio	**Non-government**		**Government**	
	31 Dec 2019 %	31 Dec 2018 %	**31 Dec 2019 %**	31 Dec 2018 %
AAA	42	43	62	66
AA	13	15	33	30
A	29	27	5	4
BBB	13	13	-	-
< BBB	3	2	-	-
Non-rated	-	-	-	-
Total	**100**	**100**	**100**	**100**

INVESTMENT PERFORMANCE

Investment income of £306m (2018: £322m) was offset by investment expenses of £12m (2018: £14m) and the liability discount unwind of £31m (2018: £33m). Investment income was down compared to last year reflecting the impact of reinvestment at lower yields which was partly offset by enhanced income from actions taken on the portfolios to increase exposure to less liquid credit investments.

The average book yield for 2019 on the total portfolio was 2.4% (2018: 2.5%), with an average yield on the bond portfolios of 2.1% (2018: 2.3%). Reinvestment rates in the Group's major bond portfolios were approximately 1.2% (2018: 1.6%).

At 31 December 2019, the average duration of the Group's bond portfolios was 3.9 years (31 December 2018: 3.8 years).

The investment portfolio increased by 1% during the period to £12.6bn.

At 31 December 2019, high quality widely diversified fixed income securities represented 82% of the portfolio (31 December 2018: 83%). Equities (largely REITs[1]) represented 2% (31 December 2018: 2%) and cash was 7% of the total portfolio (31 December 2018: 6%).

The quality of the bond portfolio remains very high with 98% investment grade and 69% rated AA or above. We remain well diversified by sector and geography.

Based on current forward bond yields and foreign exchange rates, it is estimated that investment income will be c.£255-270m in 2020, c.£240-255m in 2021, and c.£235-250m in 2022. The discount unwind is expected to be c.£30m per annum and investment expenses are expected to be c.£14m per annum.

Unrealised bond gains and pull-to-par

At 31 December 2019, balance sheet unrealised gains of £371m (pre-tax) had increased by £121m over the year, principally driven by positive mark-to-market on bond holdings due to declining government bond yields and tightening credit spreads. Yield movements since year end have further increased the unrealised gains.

This higher opening balance, together with flattening yield curves, has meant that the predicted period of time for the AFS gain to unwind has increased. If yield curves were to stay as they are currently, it is now estimated that the gains would take around 7 to 8 years to fully unwind, with around 50% within the next 3 years. AFS unwind is estimated to be c.£80m post tax for 2020. The capital impact of this amount is c.£70m with the balance being projected yield change. The capital impact from pull-to-par is expected to fall significantly in 2021 and 2022 based on current market forward yield curves.

[1] *Real Estate Investment Trusts*

APPENDIX I

Further information

CAPITAL

Solvency II sensitivities

Coverage ratio at 31 December 2019	**168%**	
Sensitivities (change in coverage ratio):	Including pensions[1]	Excluding pensions
Interest rates: +1% non-parallel[2] shift	+6%	+7%
Interest rates: -1% non-parallel[2] shift	-10%	-8%
Equities: -15%	-8%	-2%
Property: -10%	-3%	-2%
Foreign exchange: GBP +10% vs. all currencies	-5%	-5%
Cat loss of £75m net	-4%	-4%
Credit spreads: +0.25%[3] parallel shift	-1%	-2%
Credit spreads: -0.25%[3] parallel shift	-6%	+2%

The above sensitivities have been considered in isolation. The impact of a combination of sensitivities may be different to the individual outcomes stated above. Where an IFRS valuation of a pension scheme surplus is restricted under Solvency II, downside pension sensitivities may be dampened relative to those shown.

Reconciliation of IFRS total capital to Eligible Own Funds

	31 Dec 2019 £bn
Shareholders' funds (including preference shares)	4.1
Loan capital	0.4
Non-controlling interests	0.2
Total IFRS capital	**4.7**
Less: Goodwill & intangibles	(0.8)
Adjust technical provisions to Solvency II basis	(0.4)
Basic Own Funds	**3.5**
Tiering & availability restrictions	(0.4)
Dividends	(0.2)
Eligible Own Funds	**2.9**

1 *The impact of pensions depends significantly on the opening position of the schemes and market conditions. As such, the sensitivities shown are point-in-time estimates that will vary and should not be extrapolated*

2 *The interest rate sensitivity assumes a non-parallel shift in the yield curve to reflect that the long end of the yield curve is typically more stable than the short end*

3 *The asymmetry in credit spread sensitivities reflects the fact that upside pension sensitivities are restricted to the surplus cap. Sensitivities assume that credit spreads of different rating all move by the same amount and hence reflect an assumed offset between the impact on assets held and the IFRS value of pension scheme obligations which could differ*

PENSIONS

The table below provides a reconciliation of the movement in the Group's pension fund position under IAS 19 (net of tax) from 1 January 2019 to 31 December 2019:

	UK £m	non-UK £m	Group £m
Net pension fund surplus/ (deficit) at 1 January 2019	**232**	**(50)**	**182**
Actuarial losses[1]	(68)	(3)	(71)
Deficit funding	87	-	87
Tax movements	(12)	(3)	(15)
Other movements[2]	16	12	28
Net pension fund surplus/ (deficit) at 31 December 2019	**255**	**(44)**	**211**

At an aggregate level, the pension fund surplus under IAS 19 increased during 2019 from a £182m surplus at 1 January to a surplus of £211m at 31 December (net of tax).

The UK IAS 19 position benefited from strong equity performance over the year as well as deficit funding contributions paid by the Group (£86m pre-tax); however, these gains were partly offset by an increase in liabilities driven by a material (25-30bps) tightening of AA credit spreads.

IAS 19 sensitivities on UK schemes

	Assets	Liabilities
IAS 19 position at 31 December 2019 (£bn)	**8.5**	**(8.1)**
Sensitivities (£bn change in assets/ liabilities):		
Interest rates: -1%[3]	+1.7	+1.6
Inflation: +1%[3]	+1.0	+0.9
Equities: -15%[4]	-0.2	-
'AA' credit spreads: -0.25%	+0.1	+0.3

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

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

[3] *Actual net sensitivity to changes in interest rates and breakeven inflation will vary depending on size and direction of stress and is also highly dependent on the level of credit spreads at any point in time*

[4] *Includes 15% reduction in equities and 10% reduction in all other 'growth' assets*

REINSURANCE

On 1 January 2020, the Group Volatility Cover (GVC) entered the third year of the three year agreement that commenced on 1 January 2018.

The key terms of the GVC are as follows:

- Cover protects all our short tail business including Property, Marine and Construction & Engineering
- Events or individual net losses of £10m or greater are added together across our financial year. When a loss exceeds £10m it is included in full
- Cover attaches when the total of these retained losses is greater than £170m
- Limit of cover is £150m per year, with £300m maximum over the 3 year period
- Counterparties are high credit quality reinsurers (50% AA- or better, 41% A- or better, 9% collateralised).

Alongside the GVC, we continue to purchase additional aggregate covers for the UK, Scandinavia and Canada for losses below £10m. These covers provide protection for our short tail lines of business including Property, Marine and Construction & Engineering. For 2020, we placed 100% of the Canada and Scandinavia aggregate covers and chose to place 75% of the UK aggregate cover in order to balance the cost versus benefit of this protection.

There were no other material changes to our reinsurance retentions. Our main Catastrophe retentions remain at £75m for the UK and Europe combined, £50m for Europe excluding the UK and $75m for Canada. Our UK and Ireland Motor retentions remain at the 2019 level of £1m and €1m respectively.

REPORTING CHANGE

Within the UK & International segment, European business previously shown within UK Commercial has now been presented separately. Prior year comparatives have been presented on the same basis.

MANAGEMENT REPORT

SEGMENTAL INCOME STATEMENT

Management basis – 12 months ended 31 December 2018

	Scandinavia £m	Canada £m	UK & International £m	Central functions £m	**Group 2018 £m**
Net written premiums	**1,817**	**1,652**	**3,100**	**(99)**	**6,470**
Net earned premiums	1,807	1,607	3,129	(6)	6,537
Net incurred claims	(1,257)	(1,148)	(2,114)	39	(4,480)
Commissions	(64)	(211)	(611)	-	(886)
Operating expenses	(248)	(223)	(447)	(3)	(921)
Underwriting result ◊	**238**	**25**	**(43)**	**30**	**250**
Investment income	94	65	163	-	322
Investment expenses	(3)	(3)	(8)	-	(14)
Unwind of discount	(23)	(3)	(7)	-	(33)
Investment result ◊	**68**	**59**	**148**	**-**	**275**
Central expenses	-	-	-	(8)	(8)
Business operating result ◊	**306**	**84**	**105**	**22**	**517**
Interest					(25)
Other charges					(12)
Profit before tax					**480**
Tax					(108)
Profit after tax					**372**
Non-controlling interest					(23)
Other equity costs[1]					(23)
Net attributable profit ◊					**326**
Loss ratio (%)	69.6	71.5	67.6	-	68.5
Weather loss ratio	*0.4*	*6.8*	*5.7*	-	*3.7*
Large loss ratio	*8.9*	*9.4*	*14.2*	-	*11.6*
Current year attritional loss ratio ◊	*63.3*	*58.1*	*50.1*	-	*55.8*
Prior year effect on loss ratio	*(3.0)*	*(2.8)*	*(2.4)*	-	*(2.6)*
Commission ratio (%)	3.5	13.1	19.5	-	13.6
Expense ratio (%)	13.7	13.9	14.3	-	14.1
Combined ratio (%)◊	**86.8**	**98.5**	**101.4**	**-**	**96.2**
Earned controllable expense ratio (%) ◊	21.1	17.3	21.4	-	20.4

Notes:

UK & International comprises the UK, Europe, Ireland and Middle East.

[1] *Preference dividends of £9m and coupons of £14m paid on Restricted Tier 1 securities*

COMBINED RATIO DETAIL

Group

£m unless stated		Current year		Prior year		FY 2019 total	*FY 2019 Group ex. exits*	Current year	Prior year	FY 2018 total
Net written premiums	1	**6,390**	7	**27**	13	**6,417**	***6,400***	**6,426**	**44**	**6,470**
Net earned premiums	2	6,442	8	20	14	6,462	*6,374*	6,506	31	6,537
Net incurred claims	3	(4,352)	9	20	15	(4,332)	*(4,224)*	(4,630)	150	(4,480)
Commissions	4	(830)	10	(1)	16	(831)	*(807)*	(870)	(16)	(886)
Operating expenses	5	(946)	11	(7)	17	(953)	*(938)*	(921)	-	(921)
Underwriting result ◊	6	**314**	12	**32**	18	**346**	***405***	**85**	**165**	**250**
CY attritional claims	19	(3,540)					*(3,488)*	(3,630)		
Weather claims	20	(167)					*(158)*	(242)		
Large losses	21	(645)					*(613)*	(758)		
CY net incurred claims	22	(4,352)					*(4,259)*	(4,630)		
Loss ratio (%)				=15 / 14	23	67.0	*66.3*			*68.5*
Weather loss ratio				=20 / 2	24	*2.6*	*2.5*			*3.7*
Large loss ratio				=21 / 2	25	*10.0*	*9.7*			*11.6*
Current year attritional loss ratio ◊				=19 / 2	26	*55.0*	*54.9*			*55.8*
Prior year effect on loss ratio				=23 - 24 - 25 - 26	27	*(0.6)*	*(0.8)*			*(2.6)*
Commission ratio (%)				=16 / 14	28	12.9	*12.6*			13.6
Expense ratio (%)				=17 / 14	29	14.7	*14.7*			14.1
Combined ratio (%)◊		**95.1**		=23 + 28 + 29	30	**94.6**	***93.6***			**96.2**

Scandinavia

£m unless stated	Current year	Prior Year	FY 2019 total	Current year	Prior year	FY 2018 total
Net written premiums	**1,772**	**(8)**	**1,764**	**1,811**	**6**	**1,817**
Net earned premiums	1,774	(7)	1,767	1,802	5	1,807
Net incurred claims	(1,269)	36	(1,233)	(1,308)	51	(1,257)
Commissions	(64)	(1)	(65)	(64)	-	(64)
Operating expenses	(239)	(7)	(246)	(248)	-	(248)
Underwriting result	**202**	**21**	**223**	**182**	**56**	**238**
CY attritional claims	(1,124)			(1,141)		
Weather claims	(7)			(7)		
Large losses	(138)			(160)		
Net incurred claims	(1,269)			(1,308)		
Loss ratio (%)			69.8			69.6
Weather loss ratio			*0.4*			*0.4*
Large loss ratio			*7.8*			*8.9*
Current year attritional loss ratio			*63.4*			*63.3*
Prior year effect on loss ratio			*(1.8)*			*(3.0)*
Commission ratio (%)			3.7			3.5
Expense ratio (%)			13.9			13.7
Combined ratio (%)	**88.6**		**87.4**			**86.8**

COMBINED RATIO DETAIL

Canada

£m unless stated	Current Year	Prior year	**FY 2019 total**	Current year	Prior year	**FY 2018 total**
Net written premiums	**1,735**	**-**	**1,735**	**1,652**	**-**	**1,652**
Net earned premiums	1,723	-	1,723	1,607	-	1,607
Net incurred claims	(1,190)	14	(1,176)	(1,194)	46	(1,148)
Commissions	(209)	-	(209)	(211)	-	(211)
Operating expenses	(244)	-	(244)	(223)	-	(223)
Underwriting result	**80**	**14**	**94**	**(21)**	**46**	**25**
CY attritional claims	(966)			(934)		
Weather claims	(86)			(110)		
Large losses	(138)			(150)		
Net incurred claims	(1,190)			(1,194)		
Loss ratio (%)			68.2			71.5
Weather loss ratio			*5.0*			*6.8*
Large loss ratio			*8.0*			*9.4*
Current year attritional loss ratio			*56.0*			*58.1*
Prior year effect on loss ratio			*(0.8)*			*(2.8)*
Commission ratio (%)			12.1			13.1
Expense ratio (%)			14.2			13.9
Combined ratio (%)	**95.3**		**94.5**			**98.5**

UK&I

£m unless stated	Current year	Prior year	**FY 2019 total**	***FY 2019 ex. exits***	Current year	Prior year	**FY 2018 total**
Net written premiums	**2,847**	**34**	**2,881**	***2,864***	**3,061**	**39**	**3,100**
Net earned premiums	2,955	26	2,981	*2,893*	3,104	25	3,129
Net incurred claims	(1,855)	(26)	(1,881)	*(1,773)*	(2,173)	59	(2,114)
Commissions	(558)	-	(558)	*(534)*	(595)	(16)	(611)
Operating expenses	(457)	-	(457)	*(442)*	(447)	-	(447)
Underwriting result	**85**	**-**	**85**	***144***	**(111)**	**68**	**(43)**
CY attritional claims	(1,450)			*(1,398)*	(1,556)		
Weather claims	(74)			*(65)*	(176)		
Large losses	(331)			*(299)*	(441)		
CY net incurred claims	(1,855)			*(1,762)*	(2,173)		
Loss ratio (%)			63.1	*61.3*			67.6
Weather loss ratio			*2.5*	*2.3*			*5.7*
Large loss ratio			*11.2*	*10.4*			*14.2*
Current year attritional loss ratio			*49.1*	*48.7*			*50.1*
Prior year effect on loss ratio			*0.3*	*(0.1)*			*(2.4)*
Commission ratio (%)			18.7	*18.4*			19.5
Expense ratio (%)			15.3	*15.3*			14.3
Combined ratio (%)	**97.1**		**97.1**	***95.0***			**101.4**

APPENDIX II

Alternative Performance Measures

ALTERNATIVE PERFORMANCE MEASURES

Alternative performance measures (‘APMs’) are complementary to measures defined within International Financial Reporting Standards (‘IFRS’) and are used by management to explain the Group's business performance and financial position. They include common insurance industry metrics, as well as measures management and the Board consider are useful to enhance the understanding of its performance and allow meaningful comparisons between periods and business segments. The APMs reported are monitored consistently across the Group to manage performance on a monthly basis. They are reviewed across various functions and undergo rigorous internal quality assurance.

Occasionally management may also report additional or adjusted APMs when circumstance require. Reasons for doing so, definitions and reconciliations are provided in this appendix. In Q4 2018 targeted portfolio exits were announced as part of an ongoing strategic review of the UK & International business. Proforma APMs were therefore provided in the 2018 preliminary announcement excluding the impact of these exits to aid readers understanding and assessment of future performance potential. The strategic review concluded in 2019, with further portfolio exits announced. Given the changes in the exit portfolios during 2019, the 2018 reported proforma impact of the UK&I exited portfolio is no longer a comparable measure. As hindsight should not be used when presenting restated comparatives, restated 2018 APMs excluding the impact of UK&I exits have not been provided given that the information was not available on this basis in 2018 and the action to exit these portfolios was taken during 2019.

2019 APMs have been reported both including and excluding the impacts of the UK&I exited portfolios to provide measures that allow users to assess the future performance of UK&I and the Group.

APMs are identifiable within Group tables by the symbol ◊ and are defined in the below jargon buster. Further definition, commentary and outlook of those APMs considered important in measuring the delivery of the Group’s strategic priorities can be found on pages 22 and 23 of the Annual Report and Accounts 2018. Detailed reconciliations of APMs to their nearest IFRS Income Statement equivalents and adjusted APMs can be found after the below jargon buster. APMs used to determine management and executive remuneration are identified below with ◊*.

The adoption of IFRS 16 on 1st January 2019 has had an immaterial impact on the 2019 APMs. Details on the impact of transition can be found in note 2 of the Condensed Consolidated Financial Statements.

JARGON BUSTER

Term	Definition	APM	Reconciliation
Affinity	Selling insurance through a partner’s distribution network, usually to a group of similar customers e.g. store-card holders, alumni groups, unions and utility company customers.		
Attritional Loss Ratio	This is the claims ratio (net incurred claims and claims handling expense as a proportion of net earned premium) of our business prior to volatile impacts from weather, large losses and prior-year reserve developments.	◊	1 R
Available for Sale (AFS)	A class of financial asset that is neither held for trading nor held to maturity.		
Best	‘Best’ refers to the highest underwriting result when comparing underwriting performance on a like for like basis (with central costs consistently allocated to the underwriting result pre 2013 back to 2000).		
Business Operating Result	Business operating result represents profit before tax adjusted to add back other charges (previously referred to as operating result).	◊	1 AC
Claims Frequency	Average number of claims per policy over the year.		
Claims Handling Expenses	The administrative cost of processing a claim (such as salary costs, costs of running claims centres, allocated share of the costs of head office units) which are separate to the cost of settling the claim itself with the policyholder.		
Claims Ratio (Loss Ratio)	Percentage of net earned premiums that is paid out in claims and claims handling expenses.	◊	1 V
Claims Reserve (Provision for Losses and Loss Adjustment Expenses)	A provision established to cover the estimated cost of claims payments and claims handling expenses that are still to be settled and incurred in respect of insurance cover provided to policyholders up to the reporting date.		
Claims Severity	Average cost of claims incurred over the period.		

Term	Definition	APM	Reconciliation	
Combined Operating Ratio (COR)	A measure of underwriting performance being the ratio of underwriting costs (claims, commissions and expenses) expressed in relation to earned premiums: COR = loss ratio + commission ratio + expense ratio, where Loss ratio = net incurred claims/ net earned premiums Commission ratio = commissions/ net earned premiums Expense ratio = operating expenses/ net earned premiums	◊*	1	Y
Commission	An amount paid to an intermediary such as a broker for introducing business to the Group.			
Constant Exchange (CFX)	Prior period comparative retranslated at current period exchange rates.	◊	4	
Controllable Costs/ Expenses	A measure of operating expenses incurred by the Group in undertaking business activities, predominantly underwriting and policy acquisition costs, excluding commission and premium related costs such as levies. They are adjusted to include claims handling costs that are reported within net claims incurred.	◊*	5	
Current Year Underwriting Result	The profit or loss earned from business for which insurance cover has been provided during the current financial period. This does not include performance impacts recognised in the current reporting period relating to prior accident years.	◊	1	Q
Current Year Combined Operating Ratio (CY COR)	A measure of current year underwriting result performance calculated as per the combined operating ratio.			
Customer Retention	A measure of the amount of business that is renewed with us each year			
Ex. Exits	Excluding exits refers to financial results adjusted for the impact of UK&I portfolio exits and business lapses targeted as part of the UK&I strategic review. The action to exit these portfolios was taken during 2019		7	
Expense Ratio	Underwriting and policy expenses expressed as a percentage of net earned premium.	◊	1	X
Exposure	A measurement of risk we are exposed to through the premiums we have written. For example, in motor insurance one vehicle insured for one year is one unit of exposure.			
Financial Conduct Authority (FCA)	The regulatory authority with responsibility for the conduct of the UK financial services industry.			
Gross Written Premium (GWP)	Total revenue generated through sale of insurance products. This is before taking into account reinsurance and is stated irrespective of whether payment has been received.			
Group Volatility Cover (GVC)	Reinsurance purchased by the Group to protect against large losses. Individual losses are covered in full when they exceed a certain amount and the aggregate of such losses over the financial year exceed an agreed limit.			
IBNR (Incurred But Not Yet Reported)	An estimated reserve for amounts owed to all valid claimants who have had a covered loss but have not yet reported it and for claims that have been reported but the cost is not yet known.			
Interest Costs	Interest costs represent the cost of Group debt.			
Investment Result	Investment result is the money we make from our investments on a management basis. It comprises the major component of net investment return, investment income, in addition to unwind of discount and investment expenses.	◊	1	AA
Large Losses	Single claim or all claims arising from a single loss event with a net cost of £0.5m or higher.			
Large Loss Ratio	The large loss ratio is an expression of claims incurred in the period with a net cost of £0.5m or higher as a percentage of current year net earned premium over the same period.	◊	1	T
Managing General Agent (MGA)	A specialised type of insurance agent or broker that has been granted underwriting authority by an insurer and can negotiate contracts on behalf of the insurer.			
Net Asset Value (NAV) per Share	Net asset value per share is calculated as closing shareholders' funds, less preference share capital, divided by the number of shares in issue at the end of the period.	◊	3	E

<table>
<tr><th>Term</th><th colspan="2">Definition</th><th>APM</th><th colspan="2">Reconciliation</th></tr>
<tr><td>Net Earned Premium (NEP)</td><td colspan="2">The proportion of premium written, net of the cost of associated reinsurance, which represents the consideration charged to policyholders for providing insurance cover during the reporting period.</td><td></td><td></td><td></td></tr>
<tr><td>Net Incurred Claims (NIC)</td><td colspan="2">The total claims cost incurred in the period less any share that is borne by reinsurers. It includes both claims payments and movements in claims reserves and claims handling expenses in the period.</td><td></td><td></td><td></td></tr>
<tr><td>Net Written Premium (NWP)</td><td colspan="2">Premium written or processed in the period, irrespective of whether it has been paid, less the amount shared with reinsurers.</td><td></td><td></td><td></td></tr>
<tr><td rowspan="8">Other Charges</td><td colspan="2">Other charges represent items that are excluded to arrive at business operating result and underlying profit measures (previously referred to as non-operating charges).</td><td>◊</td><td>1</td><td>AD</td></tr>
<tr><td>Item</td><td>Reason for classification</td><td rowspan="7">◊</td><td rowspan="7">1</td><td rowspan="7">AD</td></tr>
<tr><td>Amortisation of intangible assets</td><td>To allow meaningful assessment of segmental performance where similar internally generated assets are not capitalised</td></tr>
<tr><td>Reorganisation costs</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>Gains and losses arising from the disposal of businesses and impairment of goodwill</td><td>To allow assessment of the performance of ongoing business activities</td></tr>
<tr><td>Economic assumption changes</td><td>To allow assessment of performance excluding impact of a change in economic assumptions</td></tr>
<tr><td>Payout Ratio</td><td colspan="2">Ordinary dividends expressed as a percentage of underlying profit after tax attributable to ordinary shareholders. This has also been expressed excluding the impact of UK&I exits.</td><td></td><td></td><td></td></tr>
<tr><td>Policies in Force</td><td colspan="2">The number of active insurance policies for which the Group is providing cover.</td><td></td><td></td><td></td></tr>
<tr><td>Prior Year Underwriting Result</td><td colspan="2">Updates to premium, claims, commission and expense estimates relating to prior years.</td><td>◊</td><td>1</td><td>P</td></tr>
<tr><td>Property and Casualty (P&C)
(Non-Life Insurance or General Insurance)</td><td colspan="2">Property insurance covers loss or damage through fire, theft, floods, storms and other specified risks.
Casualty insurance primarily covers losses arising from accidents that cause injury to other people or damage to the property of others.</td><td></td><td></td><td></td></tr>
<tr><td>Prudential Regulation Authority (PRA)</td><td colspan="2">The regulatory authority with responsibility for the prudential regulation and supervision of the UK financial services industry.</td><td></td><td></td><td></td></tr>
<tr><td>Pull to Par</td><td colspan="2">The movement of a bond's price toward its face value as it approaches its maturity date.</td><td></td><td></td><td></td></tr>
<tr><td>Rate</td><td colspan="2">The price of a unit of insurance based on a standard risk for one year. Actual premium charged to the policyholder may differ from the rate due to individual risk characteristics and marketing discounts.</td><td></td><td></td><td></td></tr>
</table>

Term	Definition	APM	Reconciliation	
'Record' current year underwriting performance	'Record' refers to the highest current year underwriting result and current year combined operating ratio as reported when considering the financial years from 2006 to 2019.			
Reinsurance	The practice whereby part or all of the risk accepted is transferred to another insurer (the reinsurer).			
Reported Exchange (RFX)	Prior period comparative translated at exchange rates applicable at that time.			
Return on Equity	Profit attributable to ordinary shareholders (profit after tax excluding non-controlling interests, coupon on tier 1 notes and preference dividend) expressed in relation to opening ordinary shareholders' funds (opening ordinary shareholders funds less preference share capital).	◊	2	F
Return on Tangible Equity	Profit attributable to ordinary shareholders (profit after tax excluding non-controlling interests, coupon on tier 1 notes and preference dividend) expressed in relation to opening tangible net asset value.	◊	2	H
Solvency II / Coverage Ratio	Capital adequacy regime for the European insurance industry which commenced in 2016 and is based on a set of EU wide capital requirements and risk management standards. The coverage ratio represents total eligible capital as a proportion of the Solvency Capital Requirement (SCR) under Solvency II.			
Scrip Dividend	Where shareholders choose to receive the dividend in the form of additional shares rather than cash. The Group would issue new shares to meet the scrip demand.			
Tangible Net Asset Value (TNAV)	Tangible net asset value comprises shareholders' equity, less preference share capital and goodwill and intangible assets.	◊*	3	C
Tangible Net Asset Value (TNAV) per Share	Tangible net asset value, divided by the number of shares in issue at the end of the period.	◊	3	F
Underwriting Result	Net earned premium less net claims and underwriting and policy acquisition costs.	◊	1	Z
Underlying Profit before Tax	Profit before tax adjusted for the add back of all other charges except finance costs.	◊	6	B
Underlying Tax Rate	The Group underlying tax rate mainly comprising the local statutory tax rates in the Group's territories applied to underlying regional profits (operating profits less finance costs).	◊	6	A
Underlying Profit after Tax	Profit after tax, less the proportion that is attributable to non-controlling interests, preference shareholders and tier 1 note holders, plus the add back of all other charges except finance costs (reasons for exclusion above) before an adjustment for the tax difference between effective and underlying rate.	◊*	2	B
Underlying Return on Tangible Equity	Underlying profit after tax expressed in relation to opening tangible net asset value.	◊*	2	I
Underlying Return on Equity	Underlying profit after tax expressed in relation to opening shareholders' funds excluding preference share capital.	◊	2	G
Underlying Earnings per Share (EPS)	Underlying profit after tax divided by the weighted average number of shares in issue during the period.	◊	2	K
Unearned Premium	The portion of a premium that relates to future periods, for which protection has not yet been provided, irrespective of whether the premium has been paid or not.			
Weather Losses	Weather claims incurred with a net cost of £0.5m or higher and losses of less than £0.5m where extreme weather has been identified over an extended period.			
Weather Loss Ratio	The weather loss ratio is an expression of weather losses in the period as a percentage of earned premium.	◊	1	S
Yield	Rate of return on an investment in percentage terms. The dividend payable on a share expressed as a percentage of the market price.			

ALTERNATIVE PERFORMANCE MEASURES RECONCILIATIONS

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

£'m	IFRS		Underwriting result	Investment result	Central costs	Business operating result	Other charges	Profit before tax
			Management					
Income								
Gross written premiums	7,461		7,461					
Less: reinsurance premiums	(1,044)		(1,044)					
Net written premiums	6,417		6,417					
Change in the gross provision for unearned premiums	34		34					
Less: change in provision for unearned reinsurance premiums	11		11					
Change in provision for unearned premiums	45		45					
Net earned premiums, analysed as	6,462	A	6,462					
Current year		B	6,442					
Prior year		C	20					
			6,462					
Investment income	306	D		306				
Realised gains on investments	15						15	
Gains on forex derivatives	1						1	
Unrealised losses	(26)						(26)	
Net investment return	296							
Other insurance income	135	E	135					
Pension net interest and administration costs	4						4	
Foreign exchange gain	1						1	
Other operating income	140							
Total income	6,898							
Expenses								
Gross claims incurred	(5,059)		(5,059)					
Less: claims recoveries from reinsurers	727		727					
Net claims, analysed as	(4,332)	F	(4,332)					
Attritional		G	(3,540)					
Weather		H	(167)					
Large		I	(645)					
Prior year		J	20					
			(4,332)					
Earned CY commission	(830)	K	(830)					
Earned PY commission	(1)	L	(1)					
Earned CY operating expenses	(1,081)	M	(1,081)					
Earned PY operating expenses	(7)	N	(7)					
Underwriting and policy acquisition costs	(1,919)		(1,919)					
Unwind of discount[1]	(46)			(31)			(15)	
Investment expenses	(12)			(12)				
Central expenses	(13)				(13)			
Amortisation of intangible assets	(12)						(12)	
Reorganisation costs	(27)						(27)	
Other operating expenses	(64)							
	(6,361)							
Interest costs	(25)						(25)	
Interest on lease liabilities	(7)						(7)	
Finance costs	(32)	O					(32)	
Acquisitions and disposals	(14)						(14)	
Net share of profit after tax of associates	1				1			
Profit before tax	492		346	263	(12)	597	(105)	492
Income tax expense	(109)		**Z**	**AA**	**AB**	**AC**	**AD**	
Profit for the year	383							
	C+J+L+N	P	32	PY Underwriting				
	Z - P	Q	314	CY Underwriting				
			346					
Attritional loss ratio	G/B	R	55.0%					
Weather loss ratio	H/B	S	2.6%					
Large loss ratio	I/B	T	10.0%					
Prior year effect on loss ratio	V-R-S-T	U	(0.6%)					
Loss ratio	F/A	V	67.0%					
Commission ratio	(K+L)/A	W	12.9%					
Expense ratio	(E+M+N)/A	X	14.7%					
Combined operating ratio	V+W+X	Y	94.6%					

[1] 2019 also includes change in economic assumptions

1. IFRS reconciliation to management P&L
For the 12 months ended 31 December 2018

£'m	IFRS		Underwriting result (Management)	Investment result (Management)	Central costs (Management)	Business operating result (Management)	Other charges (Management)	Profit before tax (Management)
Income								
Gross written premiums	7,467		7,467					
Less: reinsurance premiums	(997)		(997)					
Net written premiums	6,470		6,470					
Change in the gross provision for unearned premiums	61		61					
Less: change in provision for unearned reinsurance premiums	6		6					
Change in provision for unearned premiums	67		67					
Net earned premiums, analysed as	6,537	A	6,537					
Current year		B	6,506					
Prior year		C	31					
			6,537					
Investment income	322	D		322				
Realised gains on investments	22						22	
Unrealised gains	9						9	
Impairments	(10)						(10)	
Net investment return	343							
Other insurance income	138	E	138					
Other operating income	138							
Total income	7,018							
Expenses								
Gross claims incurred	(5,023)		(5,023)					
Less: claims recoveries from reinsurers	543		543					
Net claims, analysed as	(4,480)	F	(4,480)					
Attritional		G	(3,630)					
Weather		H	(242)					
Large		I	(758)					
Prior year		J	150					
			(4,480)					
Earned CY commission	(870)	K	(870)					
Earned PY commission	(16)	L	(16)					
Earned CY operating expenses	(1,059)	M	(1,059)					
Earned PY operating expenses	-	N	-					
Underwriting and policy acquisition costs	(1,945)		(1,945)					
Unwind of discount	(33)			(33)				
Investment expenses	(14)			(14)				
Central expenses	(9)				(9)			
Amortisation of intangible assets	(13)						(13)	
Impairment of goodwill	(7)						(7)	
Pension net interest and administration costs	(6)						(6)	
Regulatory costs	(4)						(4)	
Foreign exchange losses	(1)						(1)	
Other operating expenses	(54)							
	(6,512)							
Interest costs	(25)						(25)	
Finance costs	(25)	O						
Acquisitions and disposals	(2)						(2)	
Net share of profit after tax of associates	1				1			
Profit before tax	480		250	275	(8)	517	(37)	480
Income tax expense	(108)		**Z**	**AA**	**AB**	**AC**	**AD**	
Profit for the year	372							
	C+J+L+N	P	165	PY Underwriting				
	Z - P	Q	85	CY Underwriting				
			250					
Attritional loss ratio	G/B	R	55.8%					
Weather loss ratio	H/B	S	3.7%					
Large loss ratio	I/B	T	11.6%					
Prior year effect on loss ratio	V-R-S-T	U	(2.6%)					
Loss ratio	F/A	V	68.5%					
Commission ratio	(K+L)/A	W	13.6%					
Expense ratio	(E+M+N)/A	X	14.1%					
Combined operating ratio	V+W+X	Y	96.2%					

2. Metric calculations

			2019 £m	2018 £m
		Profit after tax	383	372
		Less: non-controlling interest	(24)	(23)
Note 10		Less: tier 1 notes coupon payment	(14)	(14)
Note 10		Less: preference dividend	(9)	(9)
	A	**Profit attributable to ordinary shareholders**	**336**	**326**
APM Rec 1		Add: other charges	105	37
APM Rec 1		Less: finance costs	(32)	(25)
APM Rec 6		(Less)/add: underlying tax differential	(3)	12
	B	**Underlying profit after tax attributable to ordinary shareholders**	**406**	**350**
		Opening shareholders' funds	**3,786**	**3,653**
		Less: preference share capital	(125)	(125)
	C	**Opening ordinary shareholders' funds**	**3,661**	**3,528**
Note 11		Less: opening goodwill and intangibles	(794)	(763)
	D	**Opening tangible ordinary shareholders' funds**	**2,867**	**2,765**
	E	**Weighted average no. share issue during the period (un-diluted)**	**1,031**	**1,026**
		Return on equity		
A/C	**F**	Reported	**9.2%**	**9.2%**
B/C	**G**	Underlying	**11.1%**	**9.9%**
		Return on tangible equity		
A/D	**H**	Reported	**11.7%**	**11.8%**
B/D	**I**	Underlying	**14.2%**	**12.6%**
APM Rec 7	**J**	Underlying ex exits	**16.0%**	
		Earnings per share		
A/E	**K**	Basic earnings per share	**32.6**	**31.8**
B/E	**L**	Underlying earnings per share	**39.4**	**34.1**
APM Rec 7	**M**	Underlying earnings per share ex exits	**44.5**	

3. Balance sheet reconciliations

			2019 £m	2018 £m
	A	Closing shareholders' funds	**3,872**	**3,786**
		Less: preference share capital	(125)	(125)
	B	**Ordinary shareholders funds**	**3,747**	**3,661**
Note 11		Less: closing goodwill and intangibles	(837)	(794)
	C	**Tangible net asset value**	**2,910**	**2,867**
Note 17	**D**	**Shares in issue at the period end**	**1,032**	**1,027**
B/D	**E**	**Net asset value per share**	**363**	**357**
C/D	**F**	**Tangible net asset value per share**	**282**	**279**

4. Net written premium movement and constant exchange

			2019 £m	2018 £m
Note 7	**A**	**Net written premiums**	**6,417**	**6,470**
		Year-on-year movement	(53)	(208)
		Comprised of:		
		Volume change including portfolio actions and reinsurance	(373)	(153)
		Rate increases	330	238
	B	**Movement at constant exchange**	**(43)**	**(93)**
	C	Foreign exchange	(10)	(115)
		Total movement	**(53)**	**(208)**
B/(2018A-C)	**D**	**% movement at constant exchange**	**(1)%**	**(1)%**

5. Controllable expenses			**2019**	**2018**
			£m	**£m**
		Underwriting and policy admin costs	**(1,919)**	**(1,945)**
APM Rec 1		Less: commission	831	886
		Less: non controllable premium related costs e.g. levies	146	139
		Add: claims expenses within net claims	(379)	(397)
		Add: other	(25)	(26)
	A	**Written controllable expense base**	**(1,346)**	**(1,343)**
	B	(Add)/less: controllable deferred acquisition costs	(4)	11
A+B	**C**	**Earned controllable expense base**	**(1,350)**	**(1,332)**
APM Rec 1	**D**	Add: investment expenses	(12)	(14)
APM Rec 1	**E**	Add: central costs	(13)	(9)
A+D+E	**F**	**Total written controllable expense base**	**(1,371)**	**(1,366)**
C+D+E	**G**	**Total earned controllable expense base**	**(1,375)**	**(1,355)**
	H	Net written premiums	6,417	6,470
	I	Net earned premiums	6,462	6,537
A/H	**J**	**Written controllable expense ratio**	**21.0%**	**20.8%**
F/H	**K**	**Total written controllable expense ratio**	**21.4%**	**21.1%**
C/I	**L**	**Earned controllable expense ratio**	**20.9%**	**20.4%**
G/I	**M**	**Total earned controllable expense ratio**	**21.3%**	**20.8%**

6. Underlying tax rate			**2019**	**2018**
			%	**%**
		Effective tax rate (ETR)	**22**	**23**
		Less tax effect of:		
		Unrecognised tax losses	(2)	(2)
		One off impact of Swedish law change	-	(1)
		Underlying versus IFRS regional profit mix	(1)	-
		Other	1	-
	A	**Underlying tax rate**	**20**	**20**
			£m	**£m**
		Profit before tax	492	480
APM Rec 1		Add: other charges	105	37
APM Rec 1		Less: finance costs	(32)	(25)
	B	**Underlying profit before tax**	**565**	**492**
AxB	**C**	**Underlying tax**	**(112)**	**(96)**
APM Rec 1	**D**	Income tax expense	(109)	(108)
C-D	**E**	**Underlying tax differential**	**(3)**	**12**

7. Adjusted APMs

Management report adjusted APMs when circumstance requires to further enhance understanding of reported results and of future performance potential. Adjusted profitability metrics provided show:

- The results for our ongoing business given the portfolio exits undertaken in the UK&I business
- The impact of reinsurance purchases

Impact of UK&I exits

The UK, Europe, UK & International and Group results for the 12 months ended 31 December 2019 have been presented excluding the impact of the strategic portfolio exits, primarily including London Market portfolios and a number of UK MGA schemes.

			UK	Europe	UK & International	Central functions	Group
2019 reported							
£m (unless stated)							
	A	**Net written premium**	**2,120**	**237**	**2,881**	**37**	**6,417**
	B	Net earned premium	2,215	238	2,981	(9)	6,462
	C	**Underwriting result**	**(5)**	**5**	**77**	**(48)**	**346**
(C/B)-1		**COR**	**100.2%**	**97.6%**	**97.4%**		**94.6%**
	D	**Business operating result**	**116**	**5**	**212**	**(60)**	**597**
	E	**Profit before tax**					**492**
	F	**Underlying profit before tax**					**565**
	G	**Underlying profit after tax**					**406**
		Underlying earnings per share					**39.4p**
		Underlying return on tangible equity					**14.2%**
	H	Weighted average shares					1,031
	J	Opening tangible ordinary shareholders' funds					2,867
GVC reallocation to UK&I exit portfolio[1]							
	K	GVC recoveries in relation to UK exit portfolio	8		8	(8)	
Adjusted for GVC reallocation to UK&I exit portfolio							
C+K	**L**	**Underwriting result**	**3**	**5**	**85**	**(56)**	**346**
(L/B)-1	**M**	**COR**	**99.9%**	**97.6%**	**97.1%**		**94.6%**
D+K	**N**	**Business operating result**	**124**	**5**	**220**	**(68)**	**597**
UK&I exits							
	P	Exited net written premium	10	7	17		17
	Q	Exited net earned premium	77	11	88		88
	R	Underwriting result	(47)	(12)	(59)		(59)
	S	Tax impact thereon[2]					6
Excluding exits							
A-P	**T**	**Net written premium**	**2,110**	**230**	**2,864**	**37**	**6,400**
B-Q	**U**	Net earned premium	2,138	227	2,893	(9)	6,374
L-R	**V**	**Underwriting result**	**50**	**17**	**144**	**(56)**	**405**
(V/U)-1	**W**	**COR**	**97.7%**	**92.6%**	**95.0%**		**93.6%**
N-R	**X**	**Business operating result**	**171**	**17**	**279**	**(68)**	**656**
E-R	**Y**	**Profit before tax**					**551**
F-R	**Z**	**Underlying profit before tax**					**624**
(G-R-S)/H	**AA**	**Underlying earnings per share**					**44.5**
(G-R-S)/J	**AB**	**Underlying return on tangible equity**					**16.0%**

[1] £8m of prior year GVC recoveries relating to UK exited business has been reallocated from Central Functions to UK Exits and therefore to total UK&I
[2] UK underlying tax rate 10% applied, reducing Group underlying tax rate from 20% to 19% due to an increase in the UK share of Group profit mix.

Impact of reinsurance adjustments

In 2018, the Group purchased a three year Group Volatility Cover ('GVC') and, in 2019, the Group purchased new reinsurance covers to provide additional protection for short tail lines, as detailed on page 27 of Appendix I. 2018 NWP and attritional loss ratio comparatives have been restated accordingly to allow direct comparison, as detailed by region below (adjustments also applied at Personal and Commercial level where applicable).

			Scandinavia	Canada	UK&I	Group Re	Group
	A	2018 net written premium	1,817	1,652	3,100	(99)	6,470
	B	Foreign exchange	(53)	33	10	-	(10)
	C	Add: 2019 new treaty purchase	(11)	(2)	(12)	(4)	(29)
	D	Less: 2018 GVC purchase				138	138
A:D	**E**	**2018 net written premium at constant exchange restated**	**1,753**	**1,683**	**3,098**	**35**	**6,569**
	F	2019 net written premium	1,764	1,735	2,881	37	6,417
F/E-1	**G**	**Net written premium movement restated**	**1%**	**3%**	**(7)%**		**(2)%**
	A	2018 CY net earned premium	1,802	1,607	3,104	(7)	6,506
	B	2019 new treaty purchase	(11)	(2)	(12)	(4)	(29)
	C	Foreign exchange	(52)	32	10	-	(10)
A:C	**D**	**2018 net earned premium at constant exchange restated**	**1,739**	**1,637**	**3,102**	**(11)**	**6.467**
	E	2018 attritional claims	(1,141)	(934)	(1,556)		(3,630)
	F	Foreign exchange	33	(19)	(4)		10
E+F	**G**	2018 attritional claims at constant exchange	(1,108)	(953)	(1,560)		(3,620)
G/D	**H**	**2018 attritional loss ratio restated (%)**	**63.8%**	**58.2%**	**50.3%**		**56.0%**
	J	2019 attritional loss ratio (%)	63.4%	56.0%	49.1%		55.0%
H-J	**K**	**Attritional movement restated (%)**	**0.4%**	**2.2%**	**1.2%**		**1.0%**

APPENDIX III

Other information

REPORTING AND DIVIDEND TIMETABLE

Reporting:

Q1 2020 trading update	7 May 2020
Annual General Meeting	7 May 2020

Dividend:

Final ordinary dividend for the year ended 31 December 2019:

Announcement date	27 February 2020
Ex-dividend date	5 March 2020
Record date	6 March 2020
Dividend payment date	14 May 2020

1st preference dividend:

Announcement date	27 February 2020
Ex-dividend date	5 March 2020
Record date	6 March 2020
Dividend payment date	1 April 2020

Note: The final ordinary dividend is conditional upon the directors being satisfied, in their absolute discretion, that the payment would not breach any legal or regulatory requirements, including Solvency II regulatory capital requirements.

PREFERENCE SHARE DIVIDEND

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

OTHER INFORMATION

LEI number: 549300HOGQ7E0TY86138

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Further information

A live webcast of the analyst presentation, including the question and answer session, will be broadcast on the website at 08:30am on 27 February 2020. A webcast and transcript of the presentation will be available via the company website (www.rsagroup.com).

Important disclaimer

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

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents

CONDENSED CONSOLIDATED INCOME STATEMENT
STATUTORY BASIS
for the year ended 31 December 2019

	Note	**2019 £m**	2018 £m
Income			
Gross written premiums		**7,461**	7,467
Less: reinsurance written premiums		**(1,044)**	(997)
Net written premiums	7	**6,417**	6,470
Change in the gross provision for unearned premiums		**34**	61
Less: change in provision for unearned reinsurance premiums		**11**	6
Change in provision for net unearned premiums		**45**	67
Net earned premiums		**6,462**	6,537
Net investment return		**296**	343
Other operating income		**140**	138
Total income		**6,898**	7,018
Expenses			
Gross claims incurred		**(5,059)**	(5,023)
Less: claims recoveries from reinsurers		**727**	543
Net claims		**(4,332)**	(4,480)
Underwriting and policy acquisition costs		**(1,919)**	(1,945)
Unwind of discount and change in economic assumptions	20	**(46)**	(33)
Other operating expenses		**(64)**	(54)
		(6,361)	(6,512)
Finance costs		**(32)**	(25)
Loss on disposal of businesses	5	**(14)**	(2)
Net share of profit after tax of associates		**1**	1
Profit before tax	7	**492**	480
Income tax expense	8	**(109)**	(108)
Profit for the year		**383**	372
Attributable to:			
Equity holders of the Parent Company		**359**	349
Non-controlling interests		**24**	23
		383	372
Earnings per share on profit attributable to the ordinary shareholders of the Parent Company			
Basic	9	**32.6p**	31.8p
Diluted	9	**32.5p**	31.6p
Ordinary dividends paid and proposed for the year			
Interim dividend paid	10	**7.5p**	7.3p
Final dividend proposed	10	**15.6p**	13.7p

The attached notes on pages 51 to 100 form an integral part of these consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME STATUTORY BASIS

for the year ended 31 December 2019

	2019	2018
	£m	£m
Profit for the year	**383**	372
Items that may be reclassified to the income statement:		
Exchange losses net of tax on translation of foreign operations	**(85)**	(13)
Fair value gains/(losses) on available for sale financial assets net of tax	**121**	(149)
	36	(162)
Items that will not be reclassified to the income statement:		
Pension – remeasurement of net defined benefit asset/liability net of tax and tax credit for scheme contributions	**(86)**	161
Movement in property revaluation surplus net of tax	**1**	2
	(85)	163
Total other comprehensive (expense)/income for the year	**(49)**	1
Total comprehensive income for the year	**334**	373
Attributable to:		
Equity holders of the Parent Company	**316**	343
Non-controlling interests	**18**	30
	334	373

The attached notes on pages 51 to 100 form an integral part of these consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
STATUTORY BASIS
for the year ended 31 December 2019

	Ordinary share capital	Ordinary share premium	Own shares	Preference shares	Revaluation reserves	Capital redemption reserve	Foreign currency translation reserve	Retained earnings	Share-holders' equity	Tier 1 notes	Non-controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 1 January 2018	1,023	1,083	(1)	125	297	389	54	683	3,653	297	152	4,102
Total comprehensive income												
Profit for the year	-	-	-	-	-	-	-	349	349	-	23	372
Other comprehensive (expense)/income	-	-	-	-	(149)	-	(18)	161	(6)	-	7	1
	-	-	-	-	(149)	-	(18)	510	343	-	30	373
Transactions with owners of the Group												
Contribution and distribution												
Dividends (note 10)	-	-	-	-	-	-	-	(231)	(231)	-	(14)	(245)
Shares issued for cash (note 17)	1	4	-	-	-	-	-	-	5	-	-	5
Share-based payments (note 17)	3	-	-	-	-	-	-	9	12	-	-	12
	4	4	-	-	-	-	-	(222)	(214)	-	(14)	(228)
Changes in shareholders' interests in subsidiaries	-	-	-	-	4	-	-	-	4	-	-	4
Total transactions with owners of the Group	4	4	-	-	4	-	-	(222)	(210)	-	(14)	(224)
Balance at 1 January 2019	**1,027**	**1,087**	**(1)**	**125**	**152**	**389**	**36**	**971**	**3,786**	**297**	**168**	**4,251**
Implementation of IFRS 16	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(2)**	**(2)**	**-**	**-**	**(2)**
Restated balance at 1 January 2019	**1,027**	**1,087**	**(1)**	**125**	**152**	**389**	**36**	**969**	**3,784**	**297**	**168**	**4,249**
Total comprehensive income												
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**359**	**359**	**-**	**24**	**383**
Other comprehensive income/(expense)	**-**	**-**	**-**	**-**	**107**	**-**	**(64)**	**(86)**	**(43)**	**-**	**(6)**	**(49)**
	-	**-**	**-**	**-**	**107**	**-**	**(64)**	**273**	**316**	**-**	**18**	**334**
Transactions with owners of the Group												
Contribution and distribution												
Dividends (note 10)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(242)**	**(242)**	**-**	**(13)**	**(255)**
Shares issued for cash (note 17)	**1**	**3**	**-**	**-**	**-**	**-**	**-**	**-**	**4**	**-**	**-**	**4**
Share-based payments (note 17)	**4**	**-**	**-**	**-**	**-**	**-**	**-**	**6**	**10**	**-**	**-**	**10**
Transfers	**-**	**-**	**1**	**-**	**-**	**-**	**2**	**(3)**	**-**	**-**	**-**	**-**
	5	**3**	**1**	**-**	**-**	**-**	**2**	**(239)**	**(228)**	**-**	**(13)**	**(241)**
Balance at 31 December 2019	**1,032**	**1,090**	**-**	**125**	**259**	**389**	**(26)**	**1,003**	**3,872**	**297**	**173**	**4,342**

The attached notes on pages 51 to 100 form an integral part of these consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
STATUTORY BASIS
as at 31 December 2019

	Note	2019 £m	2018 £m
Assets			
Goodwill and other intangible assets	11	**837**	792
Property and equipment		**296**	90
Investment property		**300**	310
Investments in associates		**4**	13
Financial assets	12	**11,422**	11,458
Total investments		**11,726**	11,781
Reinsurers' share of insurance contract liabilities	14	**2,326**	2,271
Insurance and reinsurance debtors		**2,923**	2,954
Deferred tax assets	15	**209**	234
Current tax assets	15	**18**	71
Other debtors and other assets		**718**	673
Other assets		**945**	978
Cash and cash equivalents	16	**909**	788
		19,962	19,654
Assets of operations classified as held for sale	5	**-**	639
Total assets		**19,962**	20,293
Equity and liabilities			
Equity			
Shareholders' equity		**3,872**	3,786
Tier 1 notes	18	**297**	297
Non-controlling interests		**173**	168
Total equity		**4,342**	4,251
Liabilities			
Issued debt	19	**750**	441
Insurance contract liabilities	20	**12,307**	12,712
Insurance and reinsurance liabilities	20	**970**	928
Borrowings		**169**	119
Deferred tax liabilities	15	**84**	79
Current tax liabilities	15	**17**	14
Provisions		**147**	169
Other liabilities		**1,176**	944
Provisions and other liabilities		**1,424**	1,206
		15,620	15,406
Liabilities of operations classified as held for sale	5	**-**	636
Total liabilities		**15,620**	16,042
Total equity and liabilities		**19,962**	20,293

The attached notes on pages 51 to 100 form an integral part of these consolidated financial statements.

The financial statements were approved on 26 February 2020 by the Board of Directors and are signed on its behalf by:

Charlotte Jones
Group Chief Financial Officer

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
STATUTORY BASIS
for the year ended 31 December 2019

	Note	**2019** **£m**	2018 £m
Cash flows from operating activities			
Cash generated from operating activities	23	**513**	269
Tax paid		**(35)**	(80)
Net cash flows from operating activities		**478**	189
Cash flows from investing activities			
Proceeds from sales or maturities of:			
Financial assets		**3,106**	2,605
Investment property		**-**	25
Property and equipment		**-**	28
Subsidiaries and associates (net of cash disposed of)		**14**	11
UK Legacy		**(8)**	-
Purchase of:			
Financial assets		**(3,346)**	(2,665)
Investment property		**-**	(19)
Property and equipment		**(8)**	(22)
Intangible assets	11	**(145)**	(123)
Subsidiaries (net of cash acquired)		**-**	(17)
Net cash flows from investing activities		**(387)**	(177)
Cash flows from financing activities			
Proceeds from issue of share capital		**4**	5
Proceeds from issue of debt	19	**348**	-
Dividends paid to ordinary shareholders		**(219)**	(208)
Coupon payment on Tier 1 notes		**(14)**	(14)
Dividends paid to preference shareholders		**(9)**	(9)
Dividends paid to non-controlling interests		**(13)**	(14)
Redemption of debt instruments		**(39)**	-
Payment of lease liabilities[1]		**(43)**	-
Net movement in other borrowings		**43**	(12)
Interest paid		**(33)**	(25)
Net cash flows from financing activities		**25**	(277)
Net increase/(decrease) in cash and cash equivalents		**116**	(265)
Cash and cash equivalents at the beginning of the year		**781**	1,049
Effect of changes in foreign exchange on cash and cash equivalents		**(11)**	(3)
Cash and cash equivalents at the end of the year	16	**886**	781

[1]Reported separately following transition to IFRS 16. Payment of lease liabilities previously reported within cash flow from operating activities.

The attached notes on pages 51 to 100 form an integral part of these consolidated financial statements.

BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

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

1) Basis of preparation

The consolidated financial statements within the full Annual Report and Accounts, from which the financial information within this preliminary announcement has been extracted, have been prepared on a going concern basis and in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and the Companies Act 2006 where applicable. The consolidated financial statements are prepared on an historical cost basis. Where other bases are applied, these are identified in the relevant accounting policy. The condensed consolidated financial information in this report has been prepared by applying the accounting policies used in the 2019 Annual Report and Accounts (see note 24).

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

The assets and liabilities considered as non-current include: investments in associates, deferred tax assets, property and equipment, intangible assets, goodwill, deferred tax liabilities, outstanding debt including 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, and insurance and reinsurance debtors.

The remaining balances are of a mixed nature. The current and non-current portions of such balances are set out in the respective notes or in the risk management note (note 4).

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

Significant accounting estimates and judgements

In preparing these consolidated financial statements, management has made judgements in determining 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.

The most significant estimates are as follows. 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 eventual outcome of the claims that have occurred by the end of the reporting period but remain unsettled – refer to note 20 for additional information
- Measurement of defined benefit obligations: key actuarial assumptions – refer to note 21 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 – refer to note 15 for additional information
- Valuation of level 3 financial assets and investment properties: use of significant unobservable inputs – refer to note 13 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 – refer to note 11 for additional information

Management have applied judgement when deciding to classify sovereign debt and bonds for which immediate prices are available as being level 1 in the fair value hierarchy (see note 13) and other debt securities for which observable prices are also available as level 2 on the basis of a lower level of activity in the market from which those prices are quoted.

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

2) Adoption of new and revised standards

IFRS 16 'Leases'

IFRS 16 replaced the previous standard IAS 17 'Leases' with effect from 1 January 2019. Its objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represent lease transactions.

Transition

The Group elected to use the standard's modified retrospective approach. The right-of-use asset on transition is recognised at a value equal to the lease liability before adjustment for any prepaid or accrued rent payments recognised immediately prior to transition using a discount rate at the date of the initial application. This has been applied using the exemption not to represent the prior reporting period.

The Group elected to use the following practical expedients on transition:

- Use of single discount rates to reflect similar lease terms and economic environments
- As an alternative to performing an impairment review, right-of-use assets have been adjusted by the value of provision for onerous leases recognised in the Consolidated Statement of Financial Position immediately before the date of initial application
- Recognition exemptions for lease contracts that at the transition date have a remaining lease term of 12 months or less
- Exclusion of initial direct costs from the measurement of the right-of-use asset
- The use of hindsight in determining the lease term for contracts containing options to extend or terminate the lease

Recognition and measurement

The Group recognises a lease liability and right-of-use asset for all lease obligations 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; lease contracts for which the underlying asset is of low value; and lease contracts in relation to intangible assets which will be expensed on a straight line basis over the life of the contract.

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. 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 indirect costs incurred to obtain the lease (except on transition), restoration provisions and any lease payments made before the commencement of the lease.

The right-of-use asset is depreciated over the shorter of the useful life or the period of the contract on a straight line basis. There are no lease contracts with purchase options or under which the Group would acquire a right-of-use asset by the end of the lease term.

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.

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.

Nature and effect of adoption of IFRS 16

On adoption the Group recognised lease liabilities in relation to leases which had been previously classified as operating leases under the principles of IAS 17 'Leases'. These liabilities were measured at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rate as at 1 January 2019. These are set at a regional level. The Group's weighted average incremental borrowing rate applied at that time was 2.7%.

A reconciliation to the operating commitments disclosed at 31 December 2018 is as follows:

	£m
Operating lease commitments disclosed as at 31 December 2018	**311**
Discounted using the lessee's incremental borrowing rate at the initial application	**278**
Less: short term leases	**(5)**
Less: low value leases	**(18)**
Add: adjustments as a result of a different treatment of an extension/termination option[1]	**48**
Less: contract elements reassessed as service agreements, VAT and other[2]	**(24)**
Lease liability recognised at 1 January 2019	**279**

[1] 2018 commitments assumed break clauses would be taken for certain contracts, whilst lease term under IFRS 16 assessed as contract end date.
[2] Service components and VAT within lease payments excluded from IFRS 16.

The effect of the adoption of IFRS 16 is as follows:

Impact on the Consolidated Statement of Financial Position (increase/(decrease))

	31 December 2019	1 January 2019
	£m	£m
Assets		
Property and equipment[1]	**213**	239
Other assets[2]	**20**	17
Total assets	**233**	256
Equity		
Shareholders' equity	**(5)**	(2)
Total equity	**(5)**	(2)
Liabilities		
Other liabilities[3]	**238**	258
Total liabilities	**238**	258

[1] The right-of-use asset primarily relates to properties. The value at transition is made up of £279m equal to the lease liability, less £19m derecognition of finance sub leases, less £21m adjustment for the unwind of opening accruals.
[2] Primarily relates to finance sub leases, whereby the sub lease term is for the remaining lease term of the head lease.
[3] The value at transition includes lease liabilities of £279m less the £21m unwind of opening accruals represented against the right-of-use asset, 31 December 2019 values **£258m** and **£20m** respectively.

Impact on the Consolidated Income Statement (increase/(decrease))

	31 December 2019
	£m
Expenses	
Underwriting and policy acquisition costs[1]	**6**
Other operating expenses[2]	**(2)**
Finance costs[3]	**(7)**
Profit before tax	**(3)**
Income tax expense	**-**
Profit for the period	**(3)**
Attributable to:	
Equity holders of the Parent Company	**(3)**
	(3)

[1] 2019 includes **£42m** depreciation charge, whereby £50m lease payment cost and £2m sublease income would have been recognised in accordance with IAS 17. 2019 also includes **£7m** costs for leases classified as low value and short term for which the financial impact is unchanged.
[2] Right-of-use asset impairment.
[3] Lease interest which would have been recognised as part of the lease cost within underwriting and policy acquisition costs in accordance with IAS 17.

Impact on the Consolidated Statement of Cash Flows (increase/(decrease))

	31 December 2019
	£m
Net cash flows from operating activities	**50**
Net cash flows from financing activities	**(50)**

Lease payments in 2018 were reported in operating activities in accordance with IAS 17, now presented within financing activities.

There is no material impact on the Consolidated Statement of Other Comprehensive Income or on basic and diluted EPS.

IAS 19 'Employee Benefits'

An amendment to IAS 19: Plan Amendment, Curtailment or Settlement issued by the IASB on 7 February 2018 was endorsed by the European Union on 13 March 2019 and became effective from 1 January 2019. This requires a net defined benefit asset or liability to be remeasured using the current assumptions and fair value of plan assets at the time of the amendment. Current service cost and net interest for the remainder of the period are remeasured using the same assumptions and the same fair value of plan assets.

This interpretation has not had a significant impact on the Group's consolidated financial statements.

IFRIC 23 'Uncertainty over Income Tax Treatment'

IFRIC 23 'Uncertainty over income tax treatment' specifies how to reflect the effect of uncertainty in accounting for income taxes where it may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept a tax treatment.

This interpretation has not had a significant impact on the Group's consolidated financial statements.

There are also a small number of other narrow scope amendments arising from annual improvements to standards that are applicable to the Group for the first time in 2019, none of which have had a significant impact on the consolidated financial statements.

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

IFRS 17 ‘Insurance Contracts’

The International Accounting Standards Board (IASB) issued IFRS 17 ‘Insurance Contracts’ in May 2017 to replace IFRS 4 ‘Insurance Contracts’ for annual reporting periods beginning, at the latest, on or after 1 January 2021. It has subsequently published an Exposure Draft (ED) proposing targeted amendments in response to concerns and challenges raised by stakeholders, including a proposal to defer the implementation of IFRS 17 by one year and to extend the exemption from applying IFRS 9 ‘Financial Instruments’ for the same period.

Responses to the ED are being considered by the IASB and it is expected that subsequent amendments including the deferral proposals will be approved and incorporated into an amended IFRS 17 standard due to be issued in the middle of 2020 resulting in both IFRS 17 and IFRS 9 becoming effective from a provisional date of 1 January 2022.

Draft legislation has been laid before Parliament to ensure that IFRS as endorsed by the EU at the end of the Brexit transitional period on 31 December 2020 will be adopted for use in the UK as well as providing the Secretary of State with the power to adopt and endorse subsequent changes to IFRS for adoption and use in the UK. This power will be delegated to a UK Endorsement Board (UKEB) which will be responsible for the UK endorsement of the amended IFRS 17. The Group is monitoring this closely.

Detailed build and testing of systems and processes to implement IFRS 17 is in progress and remains on track to substantially complete in 2020. Parallel run testing of reporting is scheduled to take place in 2021 to assure reporting compliance by 1 January 2022. Contingency planning has been considered in the event that the endorsement process adds any further delay to implementation after 2022. It is not yet possible to quantify the impact that implementing IFRS 17 will have on the measurement and presentation of insurance, reinsurance and related transactions and balances.

IFRS 9 ‘Financial Instruments’

IFRS 9 ‘Financial Instruments’ has been issued to replace IAS 39 ‘Financial Instruments: Recognition and Measurement’ and primarily changes the classification and measurement of financial assets. As described above the Group has elected to implement IFRS 9 ‘Financial Instruments’ alongside IFRS 17. Further information can be found in note 12.

Other standards

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

RISK MANAGEMENT

4) Risk management

Insurance risk

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

A) Underwriting risk
B) Reserving risk

A) Underwriting risk

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

The majority of underwriting risk to which the Group is exposed is of a short-term nature, and generally does not exceed 12 months. The Group's underwriting strategy aims to ensure that the underwritten risks are well diversified in terms of the type, amount of risk, and geography in order to ensure that the Group minimises the volatility of its insurance result.

Underwriting limits are in place to enforce appropriate risk selection criteria and pricing with all of the Group's underwriters having specific licences that set clear parameters for the business they can underwrite, based on their expertise.

The Group has developed enhanced methods of recording exposures and concentrations of risk and has a centrally managed forum looking at Group underwriting issues, reviewing and agreeing underwriting direction and setting policy and directives where appropriate. The Group has a monthly portfolio management process across all its business units where key risk indicators are tracked to monitor emerging trends, opportunities and risks. This provides greater control of exposures in high risk areas as well as enabling a prompt response to adverse claims development.

Pricing for the Group's products is generally based upon historical claims frequencies and claims severity averages, adjusted for inflation and modelled catastrophes, trended forward to recognise anticipated changes in claims patterns after making allowance for other costs incurred by the Group, conditions in the insurance market and a profit loading that adequately covers the cost of capital.

Passing elements of our insurance risk to reinsurers is another key strategy employed in managing the Group's exposure to insurance risk. The Group Board determines a maximum level of risk to be retained by the Group as a whole. The net retained risk is distributed across the Group in accordance with Group and local risk appetite.

The Group remains primarily liable as the direct insurer on all risks reinsured, although the reinsurer is liable to the Group to the extent of the insurance risk it has contractually accepted responsibility for.

B) Reserving risk

Reserving risk refers to the risk that the Group's estimates of future claims payments will be insufficient.

The Group establishes a provision for losses and loss adjustment expenses for the anticipated costs of all losses that have already occurred but have not yet been paid. Such estimates are made for losses already reported to the Group as well as for the losses that have already occurred but are not yet reported together with a provision for the future costs of handling and settling the outstanding claims.

There is a risk to the Group from the inherent uncertainty in estimating provisions at the end of the reporting period for the eventual outcome of outstanding notified claims as well as estimating the number and value of claims that are still to be notified. There is also uncertainty in the level of future costs of handling and settling the outstanding claims.

The Group seeks to reduce its reserving risk through the use of experienced, regional actuaries who estimate the actuarial indication of the required reserves based on claims experience, business volume, anticipated change in the claims environment and claims cost. This information is used by local reserving committees to recommend to the Group Reserving Committee the appropriate level of reserves for each region. This will include adding a margin onto the actuarial indication as a provision for unforeseen developments such as future claims patterns differing from historical experience, future legislative changes and the emergence of latent exposures. The Group Reserving Committee review these local submissions and recommend the final level of reserves to be held by the Group. The Group Reserving Committee is chaired by the Group Chief Financial Officer and includes the Group Chief Executive, Group Underwriting Director, Group Chief Actuary and Group Chief Risk Officer. A similar committee has been established in each of the Group's primary operating segments. The Group Reserving Committee monitors the decisions and judgements made by the business units as to the level of reserves to be held. It then recommends to the Group Board via the Group Audit Committee the final decision on the level of reserves to be included within the consolidated financial statements. In forming its collective judgement, the committee considers the following information:

- The actuarial indication of ultimate losses together with an assessment of risks and possible favourable or adverse developments that may not have been fully reflected in calculating these indications. At the end of 2019, these risks and developments include: the possibility of future legislative change having retrospective effect on open claims; changes in claims settlement procedures potentially leading to future claims payment patterns differing from historical experience; the possibility of new types of claim, such as disease claims, emerging from historical business; general uncertainty in the claims environment; the emergence of latent exposures; the outcome of litigation on claims received; failure to recover reinsurance and unanticipated changes in claims inflation;
- The views of internal peer reviewers of the reserves and of other parties including actuaries, legal counsel, risk directors, underwriters and claims managers;
- The outcome from independent assurance reviews performed by the Group actuarial function to assess the reasonableness of regional actuarial indication estimates;
- How previous actuarial indications have developed.

Financial risk

Financial risk refers to the risk of financial loss predominantly arising from investment transactions entered into by the Group, and also to a lesser extent arising from insurance contracts, and includes the following risks:

- Credit risk;
- Market risk including price, interest rate and currency rate risks;
- Liquidity risk.

The Group undertakes a number of strategies to manage these risks including the use of derivative financial instruments for the purpose of reducing its exposure to adverse fluctuations in interest rates, foreign exchange rates and long term inflation. The Group does not use derivatives to leverage its exposure to markets and does not hold or issue derivative financial instruments for speculative purposes. The policy on use of derivatives is approved by the Board Risk Committee ('BRC').

Credit risk

Credit risk is the risk of loss resulting from the failure of a counterparty to honour its financial or contractual obligations to the Group. The Group's credit risk exposure is largely concentrated in its fixed income investment portfolio and to a lesser extent, its premium receivables, and reinsurance assets.

Credit risk is managed at both a Group level and at a local level. Local operations are responsible for assessing and monitoring the creditworthiness of their counterparties (e.g. brokers and policyholders). Local credit committees are responsible for ensuring these exposures are within the risk appetite of the local operations. Exposure monitoring and reporting for fixed income investments and premium receivables is embedded throughout the organisation with aggregate credit positions reported and monitored at Group level.

The Group's credit risk strategy appetite and credit risk policy are developed by the BRC and are reviewed and approved by the Board on an annual basis. This is done through the setting of Group policies, procedures and limits.

In defining its appetite for credit risk the Group looks at exposures at both an aggregate and business unit level, distinguishing between credit risks incurred as a result of offsetting insurance risks or operating in the insurance market (e.g. reinsurance credit risks and risks to receiving premiums due from policyholders and intermediaries) and credit risks incurred for the purposes of generating a return (e.g. invested assets credit risk).

Limits are set at both a portfolio and counterparty level based on likelihood of default, derived from the rating of the counterparty, to ensure that the Group's overall credit profile and specific concentrations are managed and controlled within risk appetite.

The Group's investment management strategy primarily focuses on debt instruments of high credit quality issuers and seeks to limit the overall credit exposure with respect to any one issuer by ensuring limits have been based upon credit quality. Restrictions are placed on each of the Group's investment managers as to the level of exposure to various rating categories including unrated securities.

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

The Group Reinsurance Credit Committee oversees the management of credit risk arising from the reinsurer failing to settle its liability to the Group. Group standards are set such that reinsurers that have a financial strength rating of less than 'A-' with Standard & Poor's, or a comparable rating, are 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 2019 the extent of collateral held by the Group against reinsurers' share of insurance contract liabilities was **£36m** (2018: £577m), which in the event of a default would be called and recognised on the balance sheet. The decrease is following the legal transfer of the UK Legacy business on 1 July 2019.

The Group's use of reinsurance is sufficiently diversified that it is not concentrated on a single reinsurer, or any single reinsurance contract. The Group regularly monitors its aggregate exposures by reinsurer group against predetermined reinsurer group limits, in accordance with the methodology agreed by the BRC. The Group's largest reinsurance exposures to active reinsurance groups are Berkshire Hathaway, Lloyd's of London and Talanx. At 31 December 2019 the reinsurance asset recoverable from these groups does not exceed **4.1%** (2018: 3.9%) of the Group's total financial assets. Stress tests are performed by reinsurer counterparty and the limits are set such that in a catastrophic event, the exposure to a single reinsurer is estimated not to exceed **6.6%** (2018: 6.5%) of the Group's total financial assets.

The credit profile of the Group's assets exposed to credit risk is shown below. The credit rating bands are provided by independent rating agencies. The table below sets out the Group's aggregated credit risk exposure for its financial and insurance assets.

As at 31 December 2019

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

[1] The debt securities meeting SPPI criteria under IFRS 9 which are below investment grade are stated under IAS 39 at fair value.
[2] Loans and receivables are measured using amortised cost and their carrying amounts are considered to be as approximate fair values.
[3] The insurance and reinsurance debtors classified as not rated comprise personal policyholders and small corporate customers that do not have individual credit ratings. The overall credit risk to the Group is deemed to be low as the cover could be cancelled if payment were not received on a timely basis.

As at 31 December 2018

	Credit rating relating to financial assets that are neither past due nor impaired								
	AAA £m	AA £m	A £m	BBB £m	<BBB £m	Not rated £m	Total financial assets that are neither past due nor impaired £m	Less: Amounts classified as held for sale £m	Total financial assets that are neither past due nor impaired excluding held for sale £m
Debt securities	5,345	1,993	2,132	854	146	-	10,470	-	10,470
Of which would qualify for SPPI under IFRS 9[1]	5,345	1,978	2,057	816	70	-	10,266	-	10,266
Loans and receivables[2]	80	-	31	106	26	6	249	-	249
Reinsurers' share of insurance contract liabilities	-	657	1,467	672	41	33	2,870	604	2,266
Insurance and reinsurance debtors[3]	75	12	846	72	64	1,761	2,830	13	2,817
Derivative assets	-	1	18	48	-	-	67	-	67
Other debtors	-	-	-	-	15	172	187	15	172
Cash and cash equivalents	196	305	277	5	9	1	793	5	788

[1] The debt securities meeting SPPI criteria under IFRS 9 which are below investment grade are stated under IAS 39 at fair value.
[2] Loans and receivables are measured using amortised cost and their carrying amounts are considered to be as approximate fair values.
[3] The insurance and reinsurance debtors classified as not rated comprise personal policyholders and small corporate customers that do not have individual credit ratings. The overall credit risk to the Group is deemed to be low as the cover could be cancelled if payment were not received on a timely basis.

With the exception of government debt securities, the largest single aggregate credit exposure does not exceed **3%** (2018: 3%) of the Group's total financial assets.

Ageing of financial assets that are past due but not impaired

The following table provides information regarding the carrying value of financial assets that have been impaired and the ageing of financial assets that are past due but not impaired, excluding those assets that have been classified as held for sale.

As at 31 December 2019

			Financial assets that are past due but not impaired						
		Neither past due nor impaired	**Up to three months**	**Three to six months**	**Six months to one year**	**Greater than one year**	**Financial assets that have been impaired**	**Carrying value in the statement of financial position**	**Impairment losses charged/(reversed) to the income statement during the year**
	Note	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Debt securities	12	**10,411**	**-**	**-**	**-**	**-**	**-**	**10,411**	**-**
Loans and receivables	12	**338**	**-**	**-**	**-**	**-**	**-**	**338**	**-**
Reinsurers' share of insurance contract liabilities	14	**2,326**	**-**	**-**	**-**	**-**	**-**	**2,326**	**-**
Insurance and reinsurance debtors		**2,762**	**84**	**38**	**26**	**13**	**-**	**2,923**	**12**
Derivative assets		**98**	**-**	**-**	**-**	**-**	**-**	**98**	**-**
Other debtors		**152**	**23**	**-**	**6**	**1**	**-**	**182**	**-**
Cash and cash equivalents	16	**909**	**-**	**-**	**-**	**-**	**-**	**909**	**-**

As at 31 December 2018

			Financial assets that are past due but not impaired						
		Neither past due nor impaired	Up to three months	Three to six months	Six months to one year	Greater than one year	Financial assets that have been impaired	Carrying value in the statement of financial position	Impairment losses charged/(reversed) to the income statement during the year
	Note	£m	£m	£m	£m	£m	£m	£m	£m
Debt securities	12	10,470	-	-	-	-	-	10,470	-
Loans and receivables	12	249	-	-	-	-	-	249	-
Reinsurers' share of insurance contract liabilities	14	2,266	-	-	-	-	5	2,271	-
Insurance and reinsurance debtors		2,817	63	28	19	23	4	2,954	(2)
Derivative assets		67	-	-	-	-	-	67	-
Other debtors		172	8	2	1	2	-	185	-
Cash and cash equivalents	16	788	-	-	-	-	-	788	-

Market risk

Market risk is the risk of adverse financial impact resulting, directly or indirectly, from fluctuations from equity and property prices, interest rates and foreign currency exchange rates. Market risk arises in the Group's operations due to the possibility that fluctuations in the value of liabilities are not offset by fluctuations in the value of investments held. At Group level, it also arises in relation to the overall portfolio of international businesses through foreign currency risk. Market risk is subject to the Board Risk Committee's risk management framework, which is subject to review and approval by the Board.

Market risk can be broken down into three key components:

i. Equity and property risk

The Group classifies its investment portfolio in debt securities and equity securities in accordance with the accounting definitions under IFRS.

At 31 December 2019 the Group held investments classified as equity securities of **£673m** (2018: £739m). These include interests in structured entities and other investments where the price risk arises from interest rate risk rather than from equity market price risk. The Group considers that within equity securities, investments with a fair value of **£218m** (2018: £205m) 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 **£33m** (2018: £31m) 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 **£45m** (2018: £47m) in the income statement and **£3m** (2018: £3m) in other comprehensive income.

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

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

ii. Interest rate risk

Interest rate risk arises primarily from the Group's investments in long-term debt and fixed income securities and their movement relative to the value placed on insurance liabilities. This impacts both the fair value and amount of variable returns on existing assets as well as the cost of acquiring new fixed maturity investments.

Given the composition of the Group's investments as at 31 December 2019, the table below illustrates the impact to the income statement and other comprehensive income of a hypothetical 100bps change in interest rates on fixed income securities and cash that are subject to interest rate risk.

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

	Increase in income statement		**Decrease in other comprehensive income**	
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
Increase in interest rate markets:				
Impact on fixed income securities and cash of an increase in interest rates of 100bps	**19**	20	**(390)**	(380)

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 2020 and 1 January 2019 on the following year's income statement and other comprehensive income. The impact of an increase in interest rates on the fair value of fixed income securities that would be initially recognised in OCI will reduce over time as the maturity date approaches.

iii. *Currency risk*

The Group incurs exposure to currency risk in two ways:

- Operational currency risk – by holding investments and other assets and by underwriting and incurring liabilities in currencies other than the currency of the primary environment in which the business units operate, the Group is exposed to fluctuations in foreign exchange rates that can impact both its profitability and the reported value of such assets and liabilities;
- Structural currency risk – by investing in overseas subsidiaries the Group is exposed to the risk that fluctuations in foreign exchange rates impact the reported profitability of foreign operations to the Group, and the value of its net investment in foreign operations.

Operational currency risk is principally managed within the Group's individual operations by broadly matching assets and liabilities by currency and liquidity. Operational currency risk is not significant.

Structural currency risk is managed at a Group level through currency forward contracts and foreign exchange options within predetermined limits set by the Group 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 2019, the Group's total shareholders' equity deployed by currency was:

	Pounds Sterling	Danish Krone/Euro	Canadian Dollar	Swedish Krona	Other	Total
	£m	£m	£m	£m	£m	£m
Shareholders' equity at 31 December 2019	**2,496**	**531**	**645**	**114**	**383**	**4,169**
Shareholders' equity at 31 December 2018	2,437	401	658	226	387	4,109

Shareholders' equity is stated after taking account of the effect of currency forward contracts and foreign exchange options. The analysis aggregates the Danish Krone exposure and the Euro exposure as the Danish Krone continues to be pegged closely to the Euro. The Group considers this aggregate exposure when reviewing its hedging strategy.

The table below illustrates the impact of a hypothetical 10% change in Danish Krone/Euro, Canadian Dollar or Swedish Krona exchange rates on shareholders' equity when retranslating into sterling:

	10% strengthening in Pounds Sterling against Danish Krone/Euro	10% weakening in Pounds Sterling against Danish Krone/Euro	10% strengthening in Pounds Sterling against Canadian Dollar	10% weakening in Pounds Sterling against Canadian Dollar	10% strengthening in Pounds Sterling against Swedish Krona	10% weakening in Pounds Sterling against Swedish Krona
	£m	£m	£m	£m	£m	£m
Movement in shareholders' equity at 31 December 2019	**(48)**	**59**	**(59)**	**72**	**(10)**	**13**
Movement in shareholders' equity at 31 December 2018	(36)	45	(60)	73	(21)	25

Changes arising from the retranslation of foreign subsidiaries' net asset positions from their primary currencies into Sterling are taken through the foreign currency translation reserve and so consequently these movements in exchange rates have no impact on profit.

Liquidity risk

Liquidity risk refers to the risk of loss to the Group as a result of assets not being available in a form that can immediately be converted into cash, and therefore the consequence of not being able to pay its obligations when due. To help mitigate this risk, the BRC sets limits on assets held by the Group designed to match the maturities of its assets to that of its liabilities.

A large proportion of investments are maintained in short-term (less than one year) highly liquid securities, which are used to manage the Group's operational requirements based on actuarial assessment and allowing for contingencies.

The following table summarises the contractual repricing or maturity dates, whichever is earlier. Provision for losses and loss adjustment expenses are presented and are analysed by remaining estimated duration until settlement.

As at 31 December 2019

	Note	**Less than one year**	**One to two years**	**Two to three years**	**Three to four years**	**Four to five years**	**Five to ten years**	**Greater than ten years**	**Total**	**Carrying value in the statement of financial position**
		£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Subordinated guaranteed US$ bonds[1]	19	**-**	**-**	**-**	**-**	**-**	**7**	**-**	**7**	**6**
Senior notes due 2024[1]	19	**-**	**-**	**-**	**-**	**350**	**-**	**-**	**350**	**348**
Guaranteed subordinated notes due 2045[1]	19	**-**	**-**	**-**	**-**	**-**	**400**	**-**	**400**	**396**
Provisions for losses and loss adjustment expenses	20	**2,878**	**1,761**	**1,160**	**713**	**514**	**1,149**	**966**	**9,141**	**9,141**
Direct insurance creditors	20	**126**	**1**	**-**	**-**	**-**	**-**	**-**	**127**	**127**
Reinsurance creditors	20	**576**	**195**	**72**	**-**	**-**	**-**	**-**	**843**	**843**
Borrowings		**169**	**-**	**-**	**-**	**-**	**-**	**-**	**169**	**169**
Deposits received from reinsurers		**11**	**-**	**-**	**-**	**-**	**-**	**-**	**11**	**11**
Derivative liabilities		**4**	**15**	**-**	**-**	**2**	**7**	**67**	**95**	**95**
Lease liabilities[1]		**45**	**45**	**43**	**32**	**26**	**70**	**31**	**292**	**258**
Total		**3,809**	**2,017**	**1,275**	**745**	**892**	**1,633**	**1,064**	**11,435**	**11,394**
Interest on perpetual bonds and notes		**27**	**27**	**27**	**27**	**27**	**19**	**-**	**154**	

[1]Maturity profile shown on an undiscounted basis

As at 31 December 2018

	Note	Less than one year	One to two years	Two to three years	Three to four years	Four to five years	Five to ten years	Greater than ten years	Total	Carrying value in the statement of financial position
		£m	£m	£m	£m	£m	£m	£m		£m
Subordinated guaranteed US$ bonds[1]	19	-	-	-	-	-	-	7	7	6
Guaranteed subordinated notes due 2045[1]	19	-	-	-	-	-	400	-	400	396
Guaranteed subordinated step-up notes due 2039[1]	19	39	-	-	-	-	-	-	39	39
Provisions for losses and loss adjustment expenses	20	3,081	1,610	1,021	717	542	1,247	1,250	9,468	9,468
Direct insurance creditors	20	118	2	-	-	-	-	-	120	120
Reinsurance creditors	20	562	198	48	-	-	-	-	808	808
Borrowings		119	-	-	-	-	-	-	119	119
Deposits received from reinsurers		22	-	-	-	-	-	-	22	22
Derivative liabilities		51	-	14	-	-	9	36	110	110
Total		3,992	1,810	1,083	717	542	1,656	1,293	11,093	11,088
Interest on perpetual bonds and notes		23	21	21	21	21	40	1	148	

[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. In prior year the analysis was presented on an undiscounted basis including held for sale. The prior year figures have been re-presented above on a consistent basis.

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 19.

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 21.

SIGNIFICANT TRANSACTIONS AND EVENTS

5) Held for sale disposal groups and loss on disposal of businesses

The assets and liabilities of the businesses held for sale are shown below.

	2019	2018		
	Total	UK Legacy	Noble	Total
	£m	£m	£m	£m
Assets classified as held for sale				
Goodwill	**-**	-	2	2
Reinsurers' share of insurance contract liabilities	**-**	604	-	604
Insurance and reinsurance debtors	**-**	13	-	13
Other debtors and other assets	**-**	15	-	15
Cash and cash equivalents	**-**	4	1	5
Assets of operations classified as held for sale	**-**	636	3	639
Liabilities directly associated with assets classified as held for sale				
Insurance contract liabilities	**-**	604	-	604
Insurance and reinsurance liabilities	**-**	3	-	3
Provisions and other liabilities	**-**	29	-	29
Liabilities of operations classified as held for sale	**-**	636	-	636
Net assets of operations classified as held for sale	**-**	-	3	3

On 7 February 2017, the Group's UK Legacy liabilities were disposed of to Enstar Group Limited. The transaction initially took the form of a reinsurance agreement, effective from 31 December 2016, which substantially effected economic transfer. The legal transfer of the business was completed on 1 July 2019. The Group's UK Legacy business was managed as part of the UK operations. It is not presented as a discontinued operation as it is neither a separate geographic area nor a major line of business.

The UK Noble Marine entities were disposed of in February 2019.

Loss on disposal of businesses

In 2019, the net loss of **£14m** comprises a **£19m** loss relating to the disposal of the UK Legacy business, consisting of a **£15m** additional contribution to Enstar Group Limited and **£4m** costs of disposal, offset by a **£4m** gain on the sale of Caunce O'Hara & Company Limited.

In 2018, the net loss of £2m included a write down of £4m on classification of the UK Noble Marine entities as Held for Sale at fair value, offset by a gain of £2m on the liquidation of Royal and Sun Alliance (Ireland) Limited.

6) Reorganisation costs

During 2019 the Group's UK business incurred costs in relation to improving operations through ongoing process re-engineering and other cost reduction initiatives such as office footprint consolidation and reduction. The **£27m** incurred in 2019 (note 7) includes **£15m** in respect of redundancy and **£12m** other restructuring activity.

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

7) Segmental information

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

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

Assessing segment performance

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

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

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

Underwriting result, COR and business operating result are Alternative Performance Measures (APMs) and the key internal measures of profitability of the operating segments. The COR reflects the ratio of claims costs and expenses (including commission) to earned premiums, expressed as a percentage. Further information on APMs can be found on pages 32 to 41.

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

Year ended 31 December 2019

	Scandinavia	Canada	UK & International	Central Functions	Total Group
	£m	£m	£m	£m	£m
Net written premiums	**1,764**	**1,735**	**2,881**	**37**	**6,417**
Underwriting result[1]	**223**	**94**	**77**	**(48)**	**346**
Investment result	**63**	**65**	**135**	**-**	**263**
Central costs and other activities	**-**	**-**	**-**	**(12)**	**(12)**
Business operating result (management basis)	**286**	**159**	**212**	**(60)**	**597**
Realised gains					**15**
Unrealised (losses)/gains, impairments and foreign exchange					**(24)**
Interest costs					**(32)**
Amortisation of intangible assets (note 11)					**(12)**
Pension net interest and administration costs (note 21)					**4**
Reorganisation costs (note 6)					**(27)**
Change in economic assumptions (note 20)					**(15)**
Loss on disposal of businesses (note 5)					**(14)**
Profit before tax					**492**
Tax on operations (note 8)					**(109)**
Profit after tax					**383**
Combined operating ratio (%)	**87.4%**	**94.5%**	**97.1%**		**94.6%**

[1] UK & International management underwriting result, as reported in the press release, includes an £8m re-classification of claims recoveries from Central Functions. This re-classification is not made in the Group consolidated financial statements.

Year ended 31 December 2018

	Scandinavia	Canada	UK & International	Central Functions	Total Group
	£m	£m	£m	£m	£m
Net written premiums	1,817	1,652	3,100	(99)	6,470
Underwriting result	238	25	(43)	30	250
Investment result	68	59	148	-	275
Central costs and other activities	-	-	-	(8)	(8)
Business operating result (management basis)	306	84	105	22	517
Realised gains					22
Unrealised (losses)/gains, impairments and foreign exchange					(2)
Interest costs					(25)
Amortisation of intangible assets (note 11)					(13)
Pension net interest and administration costs (note 21)					(6)
Regulatory costs					(4)
Impairment of goodwill (note 11)					(7)
Loss on disposal of businesses (note 5)					(2)
Profit before tax					480
Tax on operations (note 8)					(108)
Profit after tax					372
Combined operating ratio (%)	86.8%	98.5%	101.4%		96.2%

8) Income tax

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

	2019	2018
	£m	£m
Current tax	**90**	94
Deferred tax	**19**	14
Taxation attributable to the Group	**109**	108

Reconciliation of the income tax expense

	2019 £m	2018 £m
Profit before tax	**492**	480
Tax at the UK rate of **19.0%** (2018: 19.0%)	**93**	91
Tax effect of:		
Income/gains not taxable (or taxed at lower rate)	**(15)**	(7)
Expenses not deductible for tax purposes	**5**	1
Non-taxable (profit) on sale of subsidiaries	**-**	(1)
Impairment of goodwill and amortisation of intangibles	**-**	2
Increase/(decrease) of current tax in respect of prior periods	**5**	(5)
Increase/(decrease) of deferred tax in respect of prior periods (other than losses)	**-**	(1)
De-recognition of deferred tax asset for prior year losses	**6**	4
Non-recognition of deferred tax asset for current year losses	**5**	6
Different tax rates of subsidiaries operating in other jurisdictions	**8**	11
Withholding tax on dividends and interest from subsidiaries	**5**	4
Effect of change in tax rates	**(1)**	(2)
Deductible Restricted Tier 1 coupon in equity	**(3)**	(3)
One off tax charge on Swedish Safety Reserve	**-**	6
Other	**1**	2
Income tax expense	**109**	108
Effective tax rate	**22%**	23%

The Group effective tax rate of **22%** (2018: 23%) is higher than the UK statutory rate of 19% predominately due to unrecognised tax losses in the UK and Norway, higher statutory tax rates in the Group's core overseas jurisdictions and non-creditable withholding tax. Income/gains not taxable largely comprises tax-exempt investment income and non-taxable foreign exchange.

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

	Current Tax		Deferred Tax		Total	
	2019 £m	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m
Exchange gains and losses	**(2)**	(3)	**(3)**	3	**(5)**	-
Fair value gains and losses	**2**	41	**(10)**	(18)	**(8)**	23
Remeasurement of net defined benefit pension liability	**-**	14	**(3)**	(30)	**(3)**	(16)
Total credited/(charged) to other comprehensive income	**-**	52	**(16)**	(45)	**(16)**	7

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** (2018: £nil).

The Group applies judgement in identifying uncertainties over income tax treatments under IAS 12 and, from 1 January 2019, IFRIC 23. The introduction of IFRIC 23 on 1 January 2019 had no material impact on the Group's provisions for uncertain tax positions. 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 to uncertain tax positions for the Group totalled less than £10m (2018: less than £10m).

Tax rates

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

	2019		2018	
	Current Tax	**Deferred Tax**	Current Tax	Deferred Tax
UK	**19.0%**	**17.0%**	19.0%	17.0%
Canada	**27.4%**	**27.4%**	27.7%	27.7%
Denmark	**22.0%**	**22.0%**	22.0%	22.0%
Ireland	**12.5%**	**12.5%**	12.5%	12.5%
Sweden	**21.4%**	**20.6%**	22.0%	20.6%

Tax assets and liabilities are recognised based on tax rates that have been enacted or substantively enacted at the balance sheet date. The Conservative Party manifesto at the recent general election included a commitment to cancel the reduction in the UK corporate tax rate from 19% to 17% in April 2020. Under IAS 12 only rate changes that have been substantively enacted at the reporting date can be used for calculating deferred tax.

9) Earnings per share (EPS)

The earnings per ordinary share are calculated by reference to the profit attributable to the ordinary shareholders and the weighted average number of shares in issue during the year. These were **1,030,648,190** (2018: 1,026,040,413) for basic EPS and **1,033,077,874** (2018: 1,030,450,240) for diluted EPS (excluding those held in Employee Stock Ownership Plan (ESOP) and Share Incentive Plan (SIP) trusts). The number of shares in issue at 31 December 2019 was **1,031,523,544** (2018: 1,026,814,592) (excluding those held in ESOP and SIP trusts).

Basic EPS

	2019	2018
Profit attributable to the shareholders of the Parent Company (£m)	**359**	349
Less: cumulative preference dividends (£m)	**(9)**	(9)
Less: Tier 1 notes coupon payment (£m)	**(14)**	(14)
Profit for the calculation of earnings per share (£m)	**336**	326
Weighted average number of ordinary shares in issue (thousands)	**1,030,648**	1,026,040
Basic earnings per share (p)	**32.6**	31.8

Diluted EPS

	2019	2018
Weighted average number of ordinary shares in issue (thousands)	**1,030,648**	1,026,040
Adjustments for share options and contingently issuable shares (thousands)	**2,430**	4,410
Total weighted average number of ordinary shares for diluted earnings per share (thousands)	**1,033,078**	1,030,450
Diluted earnings per share (p)	**32.5**	31.6

Note 17 includes further information of the outstanding share options and unvested share awards to Group employees that could potentially dilute basic earnings per share in the future.

10) Dividends paid and proposed

The final dividend to equity holders is recognised as a liability when approved at the Annual General Meeting (AGM). The Company and its subsidiaries may be subject to restrictions on the amount of dividends they can pay to shareholders as a result of regulatory requirements. However, based on the information currently available, the Company does not believe that such restrictions materially limit its ability to settle obligations as and when they fall due and pay dividends. At the AGM on 7 May 2020, a final dividend in respect of the year ended 31 December 2019 of **15.6p** (2018: 13.7p) per ordinary share amounting to a total dividend of **£161m** (2018: £141m) will be recommended by the directors (subject always to the dividend being cancelled, withheld or deferred). The proposed dividend will be paid on 14 May 2020 to holders of ordinary shares on the register at the close of business on 6 March 2020, subject to ordinary shareholder approval, and will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2020.

Details of 2020 dividend dates are detailed on page 43.

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.

	2019	2018	**2019**	2018
	p	p	**£m**	£m
Ordinary dividend:				
Final paid in respect of prior year	**13.7**	13.0	**141**	133
Interim paid in respect of current year	**7.5**	7.3	**78**	75
	21.2	20.3	**219**	208
Preference dividend			**9**	9
Tier 1 notes coupon payment			**14**	14
			242	231

The Tier 1 notes coupon payment relates to the two floating rate notes issued on 27 March 2017 (note 18).

NOTES TO THE CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

11) Goodwill and intangible assets

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

	Goodwill	Intangible assets arising from acquired claims provisions	Externally acquired software	Internally generated software	Customer related intangibles	Total
	£m	£m	£m	£m	£m	£m
Cost						
At 1 January 2018	441	132	82	859	256	1,770
Additions	-	-	1	122	17	140
Additions acquired through business combinations	5	-	-	-	-	5
Disposals	(4)	-	-	(71)	(7)	(82)
Exchange adjustment	(1)	1	-	(3)	(4)	(7)
At 31 December 2018	441	133	83	907	262	1,826
Accumulated amortisation						
At 1 January 2018	-	132	77	456	189	854
Amortisation charge	-	-	4	67	17	88
Amortisation on disposals	-	-	-	(60)	(5)	(65)
Exchange adjustment	-	1	-	(1)	(2)	(2)
At 31 December 2018	-	133	81	462	199	875
Accumulated impairment						
At 1 January 2018	79	-	-	69	5	153
Impairment charge	7	-	-	2	-	9
Impairment on disposals	4	-	-	(11)	-	(7)
Exchange adjustment	2	-	-	-	-	2
At 31 December 2018	92	-	-	60	5	157
Carrying amount at 31 December 2018	349	-	2	385	58	794
Less: Assets classified as held for sale	2	-	-	-	-	2
Carrying amount at 31 December 2018 net of held for sale	347	-	2	385	58	792

The carrying value of intangible assets not yet available for use at 31 December 2019 is **£170m** (2018: £191m). This primarily relates to the implementation of strategic software assets across the Group, reported within internally generated software.

Amortisation

Amortisation expense of **£72m** (2018: £75m) has been charged to underwriting and policy acquisition costs with the remainder recognised in other operating expenses.

The Group continues to invest in strategic software assets such as policy administration and claims management systems. These are fundamental to the ongoing insurance operations and will remain in use for a period in excess of seven years. Therefore in 2019 the useful economic life of strategic software assets was extended from seven to ten years. This did not have a material impact in the period.

Impairments

During 2019 the software impairment charge was **£1m** (2018: £2m), which was recognised in underwriting and policy acquisition costs (2018: £2m).

When testing for goodwill impairment, the carrying value of the Cash Generating Unit (CGU) to which goodwill has been allocated is compared to the recoverable amount as determined by a value in use calculation. These calculations use cash flow projections based on operating plans approved by management covering a three year period and using the best estimates of future premiums, operating expenses and taxes using historical trends, general geographical market conditions, industry trends and forecasts and other available information as discussed in more detail in the strategic report section. Cash flows beyond this period are extrapolated using the estimated growth rates which management deem appropriate for the CGU. The cash flow forecasts are adjusted by appropriate discount rates. Where a sales price has been agreed for a CGU, the sales proceeds less costs to sell are considered the best estimate of the value in use.

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.

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.

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

	2019	2018
	£m	£m
Scandinavia (Sweden, Norway, Denmark)	**138**	148
Canada (Commercial, Johnson, Personal, Travel)	**160**	157
UK and International (Ireland, Oman)	**39**	42
Total Goodwill	**337**	347

In 2018, the goodwill allocated to the Norwegian CGU was impaired by £7m. This was recognised in other operating expenses.

Also in 2018, goodwill of £4m in respect of the UK Noble Marine entities was impaired prior to its classification as Held for Sale in order to write down the value of its net assets to fair value less costs to sell.

The range of pre-tax discount rates used for goodwill and intangible asset impairment testing, which reflect specific risks relating to the CGU at the date of evaluation and weighted average growth rates used in 2019 for the CGUs within each operating segment are shown below. The growth rates include improvements in trade performance, where these are forecast in the three year operational plan for the CGU.

	Pre-tax discount rate		**Weighted average growth rate**	
	2019	2018	**2019**	2018
Scandinavia	**9%-11%**	10%	**1%-3%**	1%-3%
Canada	**11%-12%**	12%-13%	**3%-4%**	3%-4%
UK & International	**9%**	10%-11%	**0%-3%**	1%

12) Financial assets

The following tables analyse the Group's financial assets by classification as at 31 December 2019 and 31 December 2018.

As at 31 December 2019

	At fair value through profit and loss (FVTPL)	Available for sale	Loans and receivables	Total
	£m	£m	£m	£m
Equity securities	**-**	**673**	**-**	**673**
Debt securities	**15**	**10,396**	**-**	**10,411**
Financial assets measured at fair value	**15**	**11,069**	**-**	**11,084**
Loans and receivables	**-**	**-**	**338**	**338**
Total financial assets	**15**	**11,069**	**338**	**11,422**

As at 31 December 2018

	At fair value through profit and loss (FVTPL)	Available for sale	Loans and receivables	Total
	£m	£m	£m	£m
Equity securities	-	739	-	739
Debt securities	19	10,451	-	10,470
Financial assets measured at fair value	19	11,190	-	11,209
Loans and receivables	-	-	249	249
Total financial assets	19	11,190	249	11,458

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

	2019				2018
	Cost/amortised cost	**Unrealised gains**	**Unrealised losses and impairments**	**Fair value**	Fair value
	£m	**£m**	**£m**	**£m**	£m
Equity securities	**679**	**60**	**(66)**	**673**	739
Debt securities	**10,144**	**383**	**(116)**	**10,411**	10,470
Financial assets measured at fair value	**10,823**	**443**	**(182)**	**11,084**	11,209
Loans and receivables	**338**	**-**	**-**	**338**	249
Total financial assets	**11,161**	**443**	**(182)**	**11,422**	11,458

Collateral

At 31 December 2019, the Group had pledged **£557m** (2018: £550m) of financial assets as collateral for liabilities or contingent liabilities, consisting of government debt securities of **£533m** (2018: £475m) and cash and cash equivalents of **£24m** (2018: £75m). The assets pledged are included in the balance sheet as follows; available for sale debt securities of **£533m** (2018: £475m) and other assets of **£24m** (2018: £75m). The terms and conditions of the collateral pledged are market standard in relation to letter of credit facilities and derivative transactions.

At 31 December 2019, the Group has accepted **£429m** (2018: £313m) in collateral, consisting of debt securities of **£405m** (2018: £292m), which the Group is permitted to sell or repledge in the event of default by the owner, and cash and cash equivalents of **£24m** (2018: £21m) which is included in the balance sheet. The fair value of the collateral accepted is **£429m** (2018: £313m). 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 2019

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

As at 31 December 2018

	Notional Amount				Fair Value	
	Less than 1 year	From 1 to 5 years	Over 5 years	Total	Asset	Liability
	£m	£m	£m	£m	£m	£m
Designated as hedging instruments						
Currency risk (net investment in foreign operation)	1,064	-	-	1,064	18	11
Currency risk (cash flow)	4	11	-	15	1	-
Cross currency interest swaps (fair value/cash flow)	155	48	171	374	3	57
Total					22	68
At FVTPL						
Currency risk mitigation	355	-	-	355	1	3
Inflation risk mitigation	-	60	271	331	44	39
Total					45	42
Total derivatives					67	110

The use of derivatives can result in accounting mismatches when gains and losses arising on the derivatives are presented in the income statement and corresponding losses and gains on the risks being mitigated are not included in the income statement. In such circumstances the Group may apply hedge accounting in accordance with IFRS and the Group accounting policy on hedging.

The Group applies hedge accounting to derivatives acquired to reduce foreign exchange risk in its net investment in certain major overseas subsidiaries. There was no ineffectiveness recognised in the income statement in respect of these hedges during 2019 or 2018.

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 1 and 36 years, with the substantial majority having a term of less than 10 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 2019 were **£2m** (2018: £nil) in the consolidated statement of other comprehensive income, and the amount reclassified to the income statement was a gain of **£1m** (2018: £1m). There was no ineffectiveness recognised in the income statement in respect of these hedges during 2019 or 2018.

The total losses on the fair value hedge instruments recognised in the income statement were **£52m** (2018: £44m) and the offsetting gains related to the hedged risk were **£45m** (2018: £45m).

The Group enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master netting arrangements. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one counterparty to the other. In certain circumstances, such as a credit default, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is payable in settlement of all transactions.

The ISDA agreements do not meet the criteria for offsetting in the statement of financial position. This is because the Group does not have any current legally enforceable right to offset recognised amounts, because the right to offset is enforceable only on the occurrence of future events. The tables below provide information on the impact of the netting arrangements.

In addition, during 2019, the Group took out borrowings from credit institutions under repurchase agreements of **£146m** (2018: £107m). The Group continues to recognise debt securities in the statement of financial position as the Group remains exposed to the risks and rewards of ownership.

As at 31 December 2019

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

As at 31 December 2018

	Amounts subject to enforceable netting arrangements					
	Effect of offsetting in statement of financial position			Related items not offset		
	Gross amounts	Amounts offset	Net amounts reported	Financial instruments	Financial collateral	Net amount
	£m	£m	£m	£m	£m	£m
Derivative financial assets	67	-	67	(49)	(15)	3
Cash received under repurchase arrangements	107	-	107	(107)	-	-
Total assets	174	-	174	(156)	(15)	3
Derivative financial liabilities	110	-	110	(49)	(61)	-
Repurchase arrangements and other similar secured borrowing	107	-	107	(107)	-	-
Total liabilities	217	-	217	(156)	(61)	-

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 2019 and change during the year of financial assets that are held to collect cash flows on specified dates that are solely for payment of principle and interest (SPPI) and are not held for trading as defined under IFRS 9, nor are managed or evaluated on a fair value basis, is set out below, together with the same information for other financial assets:

As at 31 December 2019

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

As at 31 December 2018

	SPPI financial assets	Other financial assets	Total
	£m	£m	£m
Available for sale equity securities	-	739	739
Available for sale debt securities	10,266	185	10,451
Debt securities at FVTPL	-	19	19
Loans and receivables	249	-	249
Derivative assets held for trading	-	45	45
Fair value at 31 December 2018	10,515	988	11,503

The fair value gains of SPPI financial assets and other financial assets during the year are **£114m** (2018: £123m losses) and **£31m** (2018: £35m losses) respectively.

Information on credit ratings relating to SPPI debt securities can be found in note 4.

When IFRS 9 is adopted by the Group (currently expected to be 2022) an expected credit loss provision will be recognised replacing the incurred credit loss provision under IAS 39, the impact of which will be determined by the financial instruments held at that time.

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

13) Fair value measurement

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

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

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

Group occupied property and investment property

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

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

The valuations of buildings with vacant possession are based on the comparative method of valuation with reference to sales of other vacant buildings. Fair value is then determined based on the locational qualities and physical building characteristics (principally condition, size, specification and layout) as appropriate.

Investment properties are valued using discounted cash flow models which take into account the net present value of cash flows to be generated from the properties. The cash flow streams reflect the current rent (the gross rent) payable to lease expiry, at which point it is assumed that each unit will be re-let at its estimated rental value. Allowances have been made for voids and rent free periods where applicable. The appropriate rent to be capitalised is selected on the basis of the location of the building, its quality, tenant credit quality and lease terms amongst other factors. The discount rate is determined by independent valuers who take into account a number of factors including transactions that have taken place recently of similar properties as well as other factors mentioned above such as the location of the building, its quality, tenant credit quality and lease terms amongst other factors.

These cash flows are discounted at an appropriate rate of interest to determine their present value.

In both cases the estimated fair value would increase/(decrease) if:

- The estimated rental value is higher/(lower);
- Void periods were shorter/(longer);
- The occupancy rates were higher/(lower);
- Rent free periods were shorter/(longer);
- The discount rates were lower/(higher).

Derivative financial instruments

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

Issued debt

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

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

Fair value hierarchy

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

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

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

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

In certain circumstances, the Group does not receive pricing information from an external provider for its financial investments. In such circumstances the Group calculates fair value which may use input parameters that are not based on observable market data. Unobservable inputs are based on assumptions that are neither supported by prices from observable current market transactions for the same instrument nor based on available market data. In these cases, judgement is required to establish fair values. Valuations that require the significant use of unobservable data are classified as level 3 valuations and inputs are generally determined via reference to observable inputs, historical observations or using other analytical techniques. In addition, the valuations used for investment properties and for Group occupied properties are classified in the level 3 category.

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

	Fair value hierarchy 2019			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**
Group occupied property - land and buildings	**-**	**-**	**19**	**19**
Investment properties	**-**	**-**	**300**	**300**
Available for sale financial assets:				
Equity securities	**394**	**-**	**279**	**673**
Debt securities	**3,725**	**6,296**	**375**	**10,396**
Financial assets at FVTPL:				
Debt securities	**-**	**-**	**15**	**15**
	4,119	**6,296**	**988**	**11,403**
Derivative assets:				
At FVTPL	**-**	**66**	**-**	**66**
Designated as hedging instruments	**-**	**32**	**-**	**32**
Total assets measured at fair value	**4,119**	**6,394**	**988**	**11,501**
Derivative liabilities:				
At FVTPL	**-**	**65**	**-**	**65**
Designated as hedging instruments	**-**	**30**	**-**	**30**
Total liabilities measured at fair value	**-**	**95**	**-**	**95**
Issued debt	**-**	**814**	**-**	**814**
Total value of liabilities not measured at fair value	**-**	**814**	**-**	**814**

	Fair value hierarchy 2018			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Group occupied property - land and buildings	-	-	19	19
Investment properties	-	-	310	310
Available for sale financial assets:				
Equity securities	384	-	355	739
Debt securities	3,798	6,243	410	10,451
Financial assets at FVTPL:				
Debt securities	-	-	19	19
	4,182	6,243	1,113	11,538
Derivative assets:				
At FVTPL	-	45	-	45
Designated as hedging instruments	-	22	-	22
Total assets measured at fair value	4,182	6,310	1,113	11,605
Derivative liabilities:				
At FVTPL	-	42	-	42
Designated as hedging instruments	-	68	-	68
Total liabilities measured at fair value	-	110	-	110
Issued debt	-	460	-	460
Total value of liabilities not measured at fair value	-	460	-	460

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

	Available for sale investments		**Investments at FVTPL**		
	Equity securities £m	**Debt securities £m**	**Equity securities £m**	**Debt securities £m**	**Total £m**
At 1 January 2018	350	327	-	18	695
Total gains recognised in:					
Income statement	2	-	-	-	2
Other comprehensive income	1	11	-	-	12
Purchases	152	90	-	1	243
Disposals	(151)	(18)	-	-	(169)
Exchange adjustment	1	-	-	-	1
At 1 January 2019	**355**	**410**	**-**	**19**	**784**
Total gains/(losses) recognised in:					
Income statement	**3**	**3**	**-**	**(6)**	**-**
Other comprehensive income	**(6)**	**(11)**	**-**	**-**	**(17)**
Purchases	**35**	**134**	**-**	**2**	**171**
Disposals	**(96)**	**(157)**	**-**	**-**	**(253)**
Exchange adjustment	**(12)**	**(4)**	**-**	**-**	**(16)**
Level 3 financial assets at 31 December 2019	**279**	**375**	**-**	**15**	**669**

Unrealised losses of **£6m** (2018: £nil) attributable to FVTPL debt securities recognised in the consolidated income statement relate to those still held at the end of the year.

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

		Reasonably possible alternative assumptions			
		2019		2018	
Available for sale financial assets and property	**Main assumptions**	**Current fair value £m**	**Decrease in fair value £m**	Current fair value £m	Decrease in fair value £m
Group occupied property - land and buildings[1]	Property valuation	**19**	**(3)**	19	(3)
Investment properties[1]	Cash flows; discount rate	**300**	**(48)**	310	(51)
Level 3 available for sale financial assets:					
Equity securities[2]	Cash flows; discount rate	**279**	**(9)**	355	(10)
Debt securities[2]	Cash flows; discount rate	**375**	**(11)**	410	(10)
Total		**973**	**(71)**	1,094	(74)

[1] The Group's property portfolio (including the Group occupied properties) is almost exclusively located in the UK. Reasonably possible alternative valuations have been determined using an increase of 100bps in the discount rate used in the valuation.
[2] The Groups investment in financial assets classified at level 3 in the hierarchy are primarily investments in various private fund structures investing in debt instruments where the valuation includes estimates of the credit spreads on the underlying holdings. The estimates of the credit spread are based upon market observable credit spreads for what are considered to be assets with similar credit risk. Reasonably possible alternative valuations have been determined using an increase of 100bps in the credit spread used in the valuation.

14) Reinsurers' share of insurance contract liabilities

	2019	2018
	£m	£m
Reinsurers' share of provisions for unearned premiums	**746**	739
Reinsurers' share of provisions for losses and loss adjustment expenses	**1,580**	1,532
Total reinsurers' share of insurance contract liabilities net of held for sale	**2,326**	2,271
To be settled within 12 months	**902**	964
To be settled after 12 months	**1,424**	1,307

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

	2019	2018
	£m	£m
Reinsurers' share of provision for unearned premiums at 1 January	**739**	729
Premiums ceded to reinsurers	**1,044**	997
Reinsurers' share of premiums earned	**(1,033)**	(991)
Changes in reinsurance asset	**11**	6
Exchange adjustment	**(4)**	4
Total reinsurers' share of provision for unearned premiums at 31 December	**746**	739

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

	2019	2018
	£m	£m
Reinsurers' share of provisions for losses and loss adjustment expenses at 1 January	**2,136**	2,159
Reinsurers' share of total claims incurred	**727**	543
Total reinsurance recoveries received	**(705)**	(619)
Disposal of UK Legacy	**(572)**	-
Exchange adjustment	**(22)**	23
Other movements	**16**	30
Reinsurers' share of provisions for losses and loss adjustment expenses at 31 December	**1,580**	2,136
Less: Assets classified as held for sale	**-**	604
Total reinsurers' share of provisions for losses and loss adjustment expenses at 31 December net of held for sale	**1,580**	1,532

15) Current and deferred tax

Current tax

	Asset		**Liability**	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
To be settled within 12 months	**14**	43	**13**	6
To be settled after 12 months	**4**	28	**4**	8
Current tax position at 31 December	**18**	71	**17**	14

Deferred tax

	Asset		**Liability**	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Deferred tax position at 31 December	**209**	234	**84**	79

Of the **£209m** (2018: £234m) deferred tax asset recognised by the Group, **£193m** (2018: £204m) relates to tax jurisdictions in which the Group has suffered a tax loss in either the current or preceding period; **£180m** (2018: £189m) of which relates to the UK. The UK deferred tax asset has reduced by **£9m** due to a reduction in the forecast profits, with the net impact mainly due to lower investment income forecasts.

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 premium growth of 4% per annum and includes combined operating ratio improvements for specific lines of business where this is expected based on longer range projections. 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:

	2019	2018
	£m	£m
1% increase in combined operating ratio across all 7 years	**(15)**	(17)
1 year reduction in the forecast modelling period	**(23)**	(23)
50 basis points decrease in bond yields	**(7)**	(6)
1% decrease in annual premium growth	**(1)**	(1)

The relationship between the UK deferred tax asset and these sensitivities is not always linear. Therefore, the cumulative impact on the deferred tax asset of combined sensitivities or longer extrapolations based on the above numbers will be indicative only.

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

	2019	2018
	£m	£m
Net unrealised gains on investments	**(52)**	(34)
Intangibles capitalised	**(25)**	(25)
Deferred acquisition costs	**(6)**	(8)
Tax losses and unused tax credits	**85**	80
Accrued costs deductible when settled	**87**	87
Net insurance contract liabilities	**(15)**	(15)
Retirement benefit obligations	**17**	20
Capital allowances	**35**	51
Provisions and other temporary differences	**(1)**	(1)
Net deferred tax asset at 31 December	**125**	155

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

	2019	2018
	£m	£m
Net deferred tax asset at 1 January	**155**	220
Amounts charged to income statement	**(20)**	(15)
Amounts charged to other comprehensive income	**(16)**	(46)
Net arising on acquisition of subsidiaries and other transfers	**-**	(5)
Exchange adjustments	**5**	(1)
Effect of change in tax rates - income statement	**1**	1
- other comprehensive income	**-**	1
Net deferred tax asset at 31 December	**125**	155

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

	2019		2018	
	Gross amount	**Tax effect**	Gross amount	Tax effect
	£m	**£m**	£m	£m
Trading tax losses	**1,335**	**225**	1,313	227
Capital tax losses	**1,314**	**225**	1,195	205
Deductible temporary differences	**169**	**29**	196	33
Unremitted retained earnings	**(505)**	**(25)**	(501)	(25)
Unrecognised tax assets/(liabilities) as at 31 December	**2,313**	**454**	2,203	440

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. None of the Group's unrecognised tax losses are subject to expiry.

Unremitted retained earnings relate to the Group's subsidiaries in Canada. The Group can control the remittance of earnings to the UK and there is no intention to remit the retained earnings in the foreseeable future if the remittance would trigger a material incremental tax liability. As such the Group has not recognised any deferred tax in respect of the potential taxes on the temporary differences arising on unremitted earnings of continuing overseas subsidiaries.

16) Cash and cash equivalents

	2019 £m	2018 £m
Cash and cash equivalents, and bank overdrafts (consolidated statement of cash flows)	**886**	781
Add: Overdrafts reported in other borrowings	**23**	12
Total cash and cash equivalents	**909**	793
Less: Assets classified as held for sale	**-**	5
Total cash and cash equivalents (consolidated statement of financial position)	**909**	788

17) 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 2019 is:

	2019 £m	2018 £m
Issued and fully paid		
1,031,645,294 Ordinary Shares of £1 each (2018: 1,026,937,928 Ordinary Shares of £1 each)	**1,032**	1,027
125,000,000 Preference Shares of £1 each (2018: 125,000,000 Preference Shares of £1 each)	**125**	125
	1,157	1,152

During 2019, the Company issued a total of **4,707,366** new Ordinary Shares of £1 each ranking pari passu with Ordinary Shares in issue (2018: 4,102,889 new Ordinary Shares of £1 each), on the exercise of employee share options and in respect of employee share awards. The number of Ordinary Shares in issue, their nominal value and the associated share premiums are as follows:

	Number of shares	Nominal value £m	Share premium £m
At 1 January 2018	1,022,835,039	1,023	1,083
Issued in respect of employee share options and employee share awards	4,102,889	4	4
At 1 January 2019	**1,026,937,928**	**1,027**	**1,087**
Issued in respect of employee share options and employee share awards	**4,707,366**	**5**	**3**
At 31 December 2019	**1,031,645,294**	**1,032**	**1,090**

Rights attaching to the shares

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

Ordinary Shares of £1 each

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

Preference Shares of £1 each

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

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

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

Employee share schemes

The Share Incentive Plan Trust is used to hold shares purchased or issued under the company's all-employee Sharebuild plan. This includes unvested matching shares and unallocated shares which may subsequently be transferred to employees including Executive Directors to satisfy Sharebuild Matching Share awards. As at 31 December 2019, **121,750** Ordinary Shares (2018: 123,336 Ordinary Shares) are held by the Trust. These shares are presented as own shares. Own shares are deducted from equity. No gain or loss is recognised on the purchase, sale, issue or cancellation of the own shares. Any consideration paid or received is recognised directly in equity.

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

The Royal and Sun Alliance ESOP Trust No. 2, an employee benefit trust, is used as a vehicle to satisfy vested awards under the long-term incentive plan (Performance Share Plan). New issue shares are allotted to the trust immediately prior to vesting, and distributed to PSP participants at vesting. There was no balance of shares in this Trust as at 1 January 2019 or 31 December 2019.

At 31 December 2019, the total number of options over Ordinary Shares outstanding under the Group employee share option plans is **4,463,331** (2018: 4,465,067) and the total number of potential shares outstanding under the long term incentive plan and under the Sharebuild plan is **9,941,034** Ordinary Shares (2018: 10,897,021 Ordinary Shares).

18) Other equity instruments - Tier 1 notes

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

Swedish Krona 2,500m at 3 month Stibor +525bps (equivalent to c.4.8% coupon on issue)
Danish Krone 650m at 3 month Cibor +485bps (equivalent to c.4.6% coupon on issue)

Interest on the notes is due and payable only at the sole and absolute discretion of the Company, subject to certain additional restrictions set out in the terms and conditions, and is non-cumulative. In addition the terms and conditions of the notes will require the Company to cancel interest payments in certain circumstances. The notes are redeemable (subject to certain conditions) at the option of the Company in whole but not in part on the first call date, being the fifth anniversary of the issue date, or any interest payment date thereafter or in the event of certain changes in the tax, regulatory or ratings treatment of the notes. Any redemption is subject, inter alia, to the Company giving notice to the relevant regulator and the regulator granting permission to redeem. The notes convert into ordinary shares of the Company, at a pre-determined price in the event that certain solvency capital requirements are breached, or in the event of a winding up occurring earlier, would be entitled to a return of capital in preference to ordinary shareholders but behind the rights of the existing preference shareholders, as more fully set out in the terms and conditions of the notes. Accordingly, the notes are treated as a separate category within equity and coupon payments are recognised as distributions, similar to the treatment of preference share dividends.

19) Issued debt

	2018	Cash movements Redemption	 Issue	**2019**
	£m	£m	£m	**£m**
Subordinated guaranteed US$ bonds	6	-	-	**6**
Guaranteed subordinated step-up notes due 2039	39	(39)	-	**-**
Guaranteed subordinated notes due 2045	396	-	-	**396**
Total loan capital	441	(39)	-	**402**
Senior notes due 2024	-	-	348	**348**
Total issued debt	441	(39)	348	**750**

Loan capital

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

The dated guaranteed subordinated step-up notes were issued on 20 May 2009 with a redemption date of 20 May 2039 and at a fixed rate of 9.375%. On 20 May 2019 the Group exercised its right to call the bonds and accordingly redeemed the outstanding £39m nominal value of these step-up notes.

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

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

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

Senior notes

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

All issued debt

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

20) 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 4).

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

The provisions for losses and loss adjustment expenses are estimated using previous claims experience with similar cases, historical payment trends, the volume and nature of the insurance underwritten by the Group and current specific case reserves. Also considered are developing loss payment trends, the potential longer term significance of large events, and the levels of unpaid claims, legislative changes, judicial decisions and economic, political and regulatory conditions.

The Group uses a number of commonly accepted actuarial projection methodologies to determine the appropriate provision to recognise. These include methods based upon the following:

- The development of previously settled claims, where payments to date are extrapolated for each prior year;
- Estimates based upon a projection of claims numbers and average cost;
- Notified claims development, where notified claims to date for each year are extrapolated based upon observed development of earlier years;
- Expected loss ratios;
- Bornhuetter-Ferguson method, which combines features of the above methods;
- Bespoke methods for specialist classes of business, for example for a Legacy Children's PA product a frequency/severity model based upon transition matrices between the various stages of a claim.

In selecting the method and estimate appropriate to any one class of insurance business, the Group considers the appropriateness of the methods and bases to the individual circumstances of the provision class and underwriting year.

Individually large and significant claims are generally assessed separately, being measured either at the face value of the loss adjusters' estimates, or projected separately in order to allow for the future development of large claims.

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

Sensitivities

Sensitivities in the table below show the impact on the pre-taxation result considering an increase in loss ratio of 5%, and an increase in expenses of 10%.

Impact on pre-taxation result	**2019** **£m**	2018 £m
Net loss ratio 5%	**(323)**	(327)
Expenses 10%	**(135)**	(136)

Discount assumptions

The total value of provisions for losses and loss adjustment expenses less related reinsurance recoveries before discounting is **£8,081m** (2018: £8,494m).

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

		Discount rate		Average number of years to settlement from reporting date	
		2019	2018	**2019**	2018
	Category	**%**	%	**Years**	Years
UK	Asbestos and environmental	**4.0**	4.0	**8**	8
UK	Periodic Payment Orders	**4.0**	4.0	**19**	20
Scandinavia	Disability	**1.2**	1.3	**6**	6
Scandinavia	Annuities	**2.4**	2.6	**14**	15
Canada	Excess casualty	**3.5**	3.5	**7**	7

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

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

As at 31 December 2019, the value of the discount on net claims liability reserves is **£69m** (2018: £92m) excluding held for sale, annuities and periodic payment orders. All other factors remaining constant, a decrease of 0.5% in the discount rates would reduce the value of the discount by approximately **£20m** (2018: £30m).

As at 31 December 2019, the value of the discount on UK and Scandinavia annuities is **£451m** (2018: 466m). A decrease of 0.5% in the real discount rate would reduce the value of the discount by approximately **£50m** (2018: £50m). The sensitivity calculation has taken into consideration the undiscounted provisions for each class of business and the respective average settlement period.

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

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

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

	Gross	RI	Net
	2018	2018	2018
	£m	£m	£m
Provision for unearned premiums	3,244	(739)	2,505
Provision for losses and loss adjustment expenses	10,072	(2,136)	7,936
Total insurance contract liabilities	13,316	(2,875)	10,441
Less: Held for sale provisions for losses and loss adjustment expenses	604	(604)	-
Provision for unearned premiums at 31 December net of held for sale	3,244	(739)	2,505
Provision for losses and loss adjustment expenses at 31 December net of held for sale	9,468	(1,532)	7,936
Total insurance contract liabilities excluding held for sale	12,712	(2,271)	10,441

Provision for unearned premiums, gross of acquisition costs

	2019 £m	2018 £m
Provision for unearned premiums (gross of acquisition costs) at 1 January	**3,919**	3,986
Premiums written	**7,461**	7,467
Less: Premiums earned	**(7,495)**	(7,528)
Changes in provision for unearned premiums	**(34)**	(61)
Exchange adjustment	**(73)**	(6)
Provision for unearned premiums (gross of acquisition costs) at 31 December	**3,812**	3,919

The provision for unearned premiums is shown net of deferred acquisition costs of **£646m** (2018: £675m). Movements in deferred acquisition costs during the year are as follows:

	2019 £m	2018 £m
Deferred acquisition costs at 1 January	**675**	670
Acquisition costs deferred during the year	**1,058**	1,035
Amortisation charged during the year	**(1,085)**	(1,028)
Exchange losses	**(2)**	(2)
Deferred acquisition costs at 31 December	**646**	675

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:

	2019 £m	2018 £m
Provisions for losses and loss adjustment expenses at 1 January	**10,072**	10,113
Gross claims incurred and loss adjustment expenses	**5,059**	5,023
Total claims payments made in the year net of salvage and other recoveries	**(5,196)**	(5,123)
Disposal of UK Legacy	**(572)**	-
Exchange adjustment	**(283)**	(5)
Other movements	**61**	64
Provisions for losses and loss adjustment expenses at 31 December	**9,141**	10,072
Less: Liabilities classified as held for sale	**-**	604
Provisions for losses and loss adjustment expenses at 31 December net of held for sale	**9,141**	9,468

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 2009 and prior, and the provisions for losses and loss adjustment expenses arising in each subsequent accident year. The tables are presented at current year average exchange rates on an undiscounted basis and have been adjusted for operations that have been disposed of.

The top triangle of the tables presents the estimated provisions for ultimate incurred losses and loss adjustment expenses for each accident year as at the end of each reporting period.

The lower triangle of the tables presents the amounts paid against those provisions in each subsequent accounting period.

The estimated provisions for ultimate incurred losses change as more information becomes known about the actual losses for which the initial provisions were set up and as the rates of exchange change.

Consolidated claims development table gross of reinsurance

	2009 and prior	2010	2011	2012	2013	2014	2015	2016	2017	2018	**2019**	**Total**
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	**£m**	**£m**
Estimate of cumulative claims												
At end of accident year	8,718	2,794	2,983	2,838	3,147	2,821	2,917	2,821	2,988	3,264	**3,162**	
One year later	8,403	2,920	3,039	2,878	3,202	2,925	2,958	2,860	3,028	3,326		
Two years later	8,053	2,865	3,067	2,848	3,124	2,837	2,948	2,782	3,035			
Three years later	7,770	2,896	2,992	2,839	3,076	2,822	2,871	2,787				
Four years later	7,681	2,883	2,924	2,791	3,077	2,768	2,886					
Five years later	7,606	2,846	2,891	2,805	3,037	2,755						
Six years later	7,714	2,807	2,887	2,780	3,025							
Seven years later	7,897	2,793	2,850	2,771								
Eight years later	7,766	2,778	2,855									
Nine years later	7,697	2,782										
Ten years later	7,696											
2019 movement	**1**	**(4)**	**(5)**	**9**	**12**	**13**	**(15)**	**(5)**	**(7)**	**(62)**		**(63)**
Claims paid												
One year later	2,543	1,524	1,372	1,346	1,477	1,334	1,475	1,417	1,474	1,566		
Two years later	1,268	415	514	501	556	424	547	504	615			
Three years later	883	284	332	288	270	288	288	271				
Four years later	753	215	194	187	206	270	179					
Five years later	521	113	108	144	124	188						
Six years later	259	59	77	66	69							
Seven years later	216	53	49	51								
Eight years later	272	15	25									
Nine years later	93	27										
Ten years later	163											
Cumulative claims paid	**6,971**	**2,705**	**2,671**	**2,583**	**2,702**	**2,504**	**2,489**	**2,192**	**2,089**	**1,566**		
Reconciliation to the statement of financial position												
Current year provision before discounting	725	77	184	188	323	251	397	595	946	1,760	**3,162**	**8,608**
Exchange adjustment to closing rates												**(161)**
Discounting												**(80)**
Annuities												**774**
Present value recognised in the consolidated statement of financial position												**9,141**

Consolidated claims development table net of reinsurance

	2009 and prior	2010	2011	2012	2013	2014	2015	2016	2017	2018	**2019**	**Total**
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	**£m**	**£m**
Estimate of cumulative claims												
At end of accident year	7,521	2,449	2,517	2,580	2,824	2,482	2,440	2,242	2,278	2,440	**2,229**	
One year later	7,202	2,532	2,492	2,599	2,922	2,512	2,377	2,292	2,397	2,446		
Two years later	6,866	2,494	2,471	2,578	2,848	2,468	2,336	2,247	2,396			
Three years later	6,610	2,508	2,424	2,540	2,817	2,421	2,272	2,255				
Four years later	6,542	2,515	2,379	2,499	2,779	2,390	2,270					
Five years later	6,512	2,483	2,354	2,498	2,756	2,381						
Six years later	6,569	2,460	2,340	2,479	2,743							
Seven years later	6,857	2,448	2,313	2,470								
Eight years later	6,793	2,431	2,311									
Nine years later	6,751	2,431										
Ten years later	6,743											
2019 movement	**8**	**-**	**2**	**9**	**13**	**9**	**2**	**(8)**	**1**	**(6)**		**30**
Claims paid												
One year later	2,164	1,267	1,080	1,202	1,403	1,159	1,197	1,050	1,177	1,232		
Two years later	1,068	370	408	419	430	366	320	373	408			
Three years later	776	264	267	244	240	215	214	207				
Four years later	666	212	177	192	190	188	154					
Five years later	466	98	106	121	119	126						
Six years later	212	59	64	63	66							
Seven years later	188	49	44	42								
Eight years later	249	11	21									
Nine years later	86	25										
Ten years later	94											
Cumulative claims paid	**5,969**	**2,355**	**2,167**	**2,283**	**2,448**	**2,054**	**1,885**	**1,630**	**1,585**	**1,232**		
Reconciliation to the statement of financial position												
Current year provision before discounting	774	76	144	187	295	327	385	625	811	1,214	**2,229**	**7,067**
Exchange adjustment to closing rates												**(128)**
Discounting												**(69)**
Annuities												**691**
Present value recognised in the consolidated statement of financial position												**7,561**

Insurance and reinsurance liabilities

	2019	2018
	£m	£m
Direct insurance creditors	**127**	120
Reinsurance creditors	**843**	811
Total insurance and reinsurance liabilities	**970**	931
Less: Liabilities classified as held for sale	**-**	3
Total	**970**	928

21) Post-employment benefits and obligations

Defined contribution pension schemes

Costs of **£65m** (2018: £70m) were recognised in respect of defined contribution schemes by the Group.

The Group's Swedish subsidiaries are part of a multi-employer defined benefit scheme along with other financial institutions in Sweden. As it is not possible to determine the assets and liabilities in respect of any one employer under this scheme, it is included in these accounts as a defined contribution scheme. Contributions of **£5m** (2018: £6m) were paid to this scheme during 2019 and are included in the costs shown above. The expected contributions in 2020 are **£5m**. Total estimated contributions to the scheme from all employers in 2019 were **£50m**. The latest information regarding the funding of this scheme is taken from the interim report for the first half of 2019, when the scheme funding rate was **118%** (2018: 122%).

Defined benefit pension schemes and other post-employment benefits

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

	2019			2018		
	UK	**Other**	**Total**	UK	Other	Total
	£m	**£m**	**£m**	£m	£m	£m
Present value of funded obligations	**(8,147)**	**(435)**	**(8,582)**	(7,474)	(401)	(7,875)
Present value of unfunded obligations	**(7)**	**(92)**	**(99)**	(7)	(92)	(99)
Fair value of plan assets	**8,549**	**467**	**9,016**	7,841	424	8,265
Other net surplus remeasurements	**(141)**	**-**	**(141)**	(129)	-	(129)
Net IAS19 surplus/(deficits) in the schemes	**254**	**(60)**	**194**	231	(69)	162
Defined benefit pension schemes	**254**	**(15)**	**239**	231	(21)	210
Other post-employment benefits	**-**	**(45)**	**(45)**	-	(48)	(48)
Schemes in surplus	**261**	**29**	**290**	238	21	259
Schemes in deficit	**(7)**	**(89)**	**(96)**	(7)	(90)	(97)

Independent actuaries calculate the value of the defined benefit obligations for the larger schemes by applying the projected unit credit method. The future expected cash outflows (calculated based on assumptions that include inflation and mortality) are discounted to present value, using a discount rate determined at the end of each reporting period by reference to current market yields on high quality corporate bonds ('AA' rated) identified to match the currency and term structure of the obligations.

The actuarial valuation involves making assumptions about discount rates, future salary increases, future inflation, the employees' age upon termination and retirement, mortality rates, future pension increases, disability incidence and health and dental care cost trends.

If actual experience differs from the assumptions used, the expected obligation could increase or decrease in future years. Due to the complexity of the valuation and its long-term nature, the defined benefit obligation is highly sensitive to changes in the assumptions. Assumptions are reviewed at each reporting date. As such, the IAS 19 valuation of the liability is highly sensitive to changes in bond rates.

UK Schemes

The major defined benefit pension schemes are located in the UK. The assets of these schemes are mainly held in separate trustee administered funds. The UK defined benefit schemes were effectively closed to new entrants in 2002 and subsequently closed to future accruals with effect from 31 March 2017. UK schemes in surplus have been reduced for the 35% tax cost of an authorised return of surplus, classified as 'Other net surplus remeasurements'. Our opinion is that the authorised refund tax charge is not an income tax within the meaning of IAS12 and so the surplus is recognised net of this tax charge rather than the tax charge being included within deferred taxation.

The profile of the members of the two main UK schemes at 30 September 2019 (the latest date at which full information is available) is as follows:

Deferred members - members no longer accruing and not yet receiving benefits	23,639
Pensioners - members and dependants receiving benefits	18,596
Total members at 30 September 2019	**42,235**

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

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

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

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

During 2009 the Group entered into an arrangement that provides coverage against longevity risk for 55% of the retirement obligations relating to pensions in payment of the two largest UK schemes at that time (c.35% coverage based on current pensioner population). The arrangement provides for reimbursement of the covered pension obligations in return for the contractual return receivable on a portfolio of assets (made up of quoted Government debt and swaps) held by the pension funds at the inception of the arrangement and which have continued to be held by the schemes. The swaps held are accounted for as a longevity swap, measured at fair value under IFRS by discounting all expected future cash flows using a discount rate consistent with the term of the relevant cash flow. The discount rate used is subject to a degree of judgement, due to the unique characteristics of the swap, and the rate is selected to most closely reflect the economic matching nature of the arrangement within a range of acceptable values obtained from external sources. The total value of the arrangement, including Government debt measured at prices quoted in an active market, at 31 December 2019 is **£1,560m** (2018: £1,523m). 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 2019 and that are due to be paid in 2020 under these plans are disclosed below. The funding plans will be reviewed again following the next triennial valuations which will have an effective date of 31 March 2021.

For the two main UK defined benefit schemes, the level of contributions in 2019 was **£96m** (2018: £120m) of which **£86m** (2018: £110m) were additional contributions to reduce funding deficits. Expected contributions to the two schemes for the year ending 31 December 2020 are approximately **£83m** including **£75m** of additional contributions to reduce the deficit.

The weighted average duration of the defined benefit obligation of the two main UK schemes at the end of the reporting period is **17 years** (2018: 16.5 years).

Non UK schemes

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

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

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:

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

	2018			
	Present value of obligations	Fair value of plan assets	Other net surplus remeasurements	Net surplus / (deficit)
	£m	£m	£m	£m
At 1 January	(8,878)	8,799	(62)	(141)
Current service costs	(6)	-	-	(6)
Past service costs	(1)	-	-	(1)
Interest (expense) / income	(218)	217	-	(1)
Administration costs	-	(7)	-	(7)
Gains on settlements/curtailments	2	-	-	2
Total (expenses) / income recognised in income statement	(223)	210	-	(13)
Return on scheme assets less amounts in interest income	-	(409)	-	(409)
Effect of changes in financial assumptions	515	-	-	515
Effect of changes in demographic assumptions	119	-	-	119
Experience gains and losses	25	-	-	25
Investment expenses	-	(6)	-	(6)
Other net surplus remeasurements	-	-	(67)	(67)
Remeasurements recognised in other comprehensive income	659	(415)	(67)	177
Employer contribution	-	137	-	137
Benefit payments	458	(458)	-	-
Exchange adjustment	10	(8)	-	2
At 31 December	(7,974)	8,265	(129)	162
Deferred tax				20
IAS 19 net surplus net of deferred tax				182

The value of scheme assets are as follows:

	2019			2018		
	UK	**Other**	**Total**	UK	Other	Total
	£m	**£m**	**£m**	£m	£m	£m
Equities	**704**	**118**	**822**	552	96	648
Government debt	**5,919**	**319**	**6,238**	5,353	163	5,516
Non-government debt	**2,705**	**-**	**2,705**	2,425	133	2,558
Derivatives	**827**	**-**	**827**	719	-	719
Property	**646**	**-**	**646**	644	-	644
Cash	**83**	**7**	**90**	194	6	200
Other (including annuity contracts, infrastructure and growth alternatives)	**456**	**23**	**479**	460	26	486
Investments	**11,340**	**467**	**11,807**	10,347	424	10,771
Value of asset and longevity swaps	**(2,791)**	**-**	**(2,791)**	(2,506)	-	(2,506)
Total assets in the schemes	**8,549**	**467**	**9,016**	7,841	424	8,265

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

	2019			2018		
	Total Quoted	**Total Unquoted**	**Total**	Total Quoted	Total Unquoted	Total
	£m	**£m**	**£m**	£m	£m	£m
Equities	**639**	**183**	**822**	510	138	648
Government debt	**5,773**	**465**	**6,238**	5,121	395	5,516
Non-government debt	**1,649**	**1,056**	**2,705**	1,439	1,119	2,558
Derivatives	**-**	**827**	**827**	-	719	719
Property	**1**	**645**	**646**	-	644	644
Cash	**90**	**-**	**90**	200	-	200
Other (including annuity contracts, infrastructure and growth alternatives)	**-**	**479**	**479**	-	486	486
Investments	**8,152**	**3,655**	**11,807**	7,270	3,501	10,771
Value of asset and longevity swaps	**-**	**(2,791)**	**(2,791)**	-	(2,506)	(2,506)
Total assets in the schemes	**8,152**	**864**	**9,016**	7,270	995	8,265

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 principal actuarial assumptions used are:

	UK		**Other**	
	2019	2018	**2019**	2018
	%	%	**%**	%
Assumptions used in calculation of retirement benefit obligations:				
Discount rate	**2.05**	2.83	**2.87**	3.57
Annual rate of inflation (RPI)	**2.96**	3.18	**-**	-
Annual rate of inflation (CPI)	**1.96**	2.08	**1.27**	1.51
Annual rate of increase in salaries	**n/a**	n/a	**2.51**	2.75
Annual rate of increase in pensions[1]	**2.82**	2.97	**1.27**	1.51
Assumptions used in calculation of pension net interest costs for the year:				
Discount rate	**2.83**	2.47	**3.57**	3.35

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

Mortality rate

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

Reductions in future mortality rates are allowed for by using the CMI 2018 tables (2018: CMI 2017 tables) with a long term improvement rate of **1.25%** (2018: 1.25%). The weighted average assumptions imply that a current pensioner aged 60 has an expected future lifetime of **27.0** (2018: 27.2) years for males and **28.5** (2018: 28.7) years for females and a future pensioner aged 60 in 15 years' time has a future expected lifetime from age 60 of **28.0** (2018: 28.2) years for males and **29.7** (2018: 29.9) years for females.

Sensitivity analysis

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

		2019	2018
	Changes in assumption	**£m**	£m
Discount rate	Increase by 0.25%	**(334)**	(299)
	Decrease by 0.25%	**357**	319
RPI / CPI[1]	Increase by 0.25%	**211**	187
	Decrease by 0.25%	**(205)**	(183)
Core mortality rates[2]	Decrease by 12%	**328**	278
	Increase by 12%	**(371)**	(281)
Long-term future improvements to mortality rates	Increase by 0.25%	**73**	61
	Decrease by 0.25%	**(72)**	(61)

[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.

22) 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. These leases were previously classified as operating leases under IAS 17. The remaining lease terms for the main office premises range from 3 to 19 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 note 2 for accounting policy).

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

Right-of-use assets

	Land and buildings	**Other**	**Total**
	£m	**£m**	**£m**
Amounts recognised at transition on 1 January 2019	**190**	**49**	**239**
Depreciation charge for the year	**(30)**	**(12)**	**(42)**
Additions to right-of-use assets	**28**	**3**	**31**
Other[1]	**(14)**	**(1)**	**(15)**
Balance at 31 December 2019	**174**	**39**	**213**

[1]Other includes the impact of contract modifications, impairments and foreign exchange.

Lease liabilities

Lease liabilities of **£258m** are included within other liabilities in the consolidated statement of financial position. The maturity analysis of this balance can be found in note 4 on page 62.

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

A reconciliation of lease liabilities is presented below.

	£m
Non-cash movements	
Amounts recognised at transition on 1 January 2019	**279**
Additions to lease liabilities	**31**
Interest on lease liabilities	**7**
Other[1]	**(9)**
Cash movements	
Lease payments	**(50)**
Balance at 31 December 2019	**258**

[1]Other includes the impact of contract modifications, impairments and foreign exchange.

Other amounts recognised in profit or loss

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

Operating leases under IAS 17	2018 £m
Lease expense	48

Amounts recognised in statement of cash flows

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

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

Leases as a lessor

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

Finance leases

Prior to 2019, the Group has sub-let office floor space in Canada and UK for which the head leases have been presented as part of the land and buildings right-of-use asset upon IFRS 16 transition. 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 2019, the Group recognised interest income on lease receivables of **£1m**.

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

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

Operating leases

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

During 2019, the Group recognised **£19m** of rental income within its net investment return (2018: £19m).

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

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

	2018[1]
	£m
Less than one year	16
Between one and five years	57
More than five years	42
Total	115

[1]2018 comparatives have been presented on an IAS 17 'Leases' basis.

NOTES TO THE CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

23) Reconciliation of cash flows from operating activities

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

	Note	2019 £m	2018 £m
Cash flows from operating activities			
Profit for the year before tax		**492**	480
Adjustments for non-cash movements in net profit for the year			
Amortisation of available for sale assets		**44**	44
Depreciation and impairment of tangible assets		**59**	18
Amortisation of intangible assets	11	**84**	90
Fair value losses/(gains) on disposal of financial assets		**1**	(31)
Impairment charge on available for sale financial assets		**-**	10
Share of profit of associates		**(1)**	(1)
Loss on disposal of businesses		**14**	2
Other non-cash movements		**86**	7
Changes in operating assets/liabilities			
Loss and loss adjustment expenses		**(113)**	10
Unearned premiums		**(37)**	(75)
Movement in working capital		**(63)**	(199)
Reclassification of investment income and interest paid		**(319)**	(303)
Pension deficit funding		**(87)**	(111)
Cash generated from investment of insurance assets			
Dividend income		**37**	35
Interest and other investment income		**316**	293
Cash flows from operating activities		**513**	269

RESULTS FOR THE YEAR 2019

24) Results for the year 2019

This financial information set out above does not constitute statutory accounts for the years ended 31 December 2019 or 31 December 2018 but is derived from those accounts. Statutory accounts for 2018 have been delivered to the Registrar of Companies, and those for 2019 will be delivered in due course. The auditors' have reported on those accounts; their reports were (i) unqualified (ii) did not include reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not include a statement under section 498(2) or (3) of the Companies Act 2006.

APPENDIX A: EXCHANGE RATES

Local currency/£	2019		2018	
	Average	**Closing**	Average	Closing
Canadian Dollar	**1.70**	**1.72**	1.73	1.74
Danish Krone	**8.52**	**8.82**	8.42	8.31
Swedish Krona	**12.08**	**12.40**	11.60	11.29
Euro	**1.14**	**1.18**	1.13	1.11

RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

A) The financial statements within the full Annual Report and Accounts, from which the financial information within this preliminary announcement has been extracted, are prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and result of the Group;

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

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

Signed on behalf of the Board

Stephen Hester
Group Chief Executive

26 February 2020

Charlotte Jones
Group Chief Financial Officer

26 February 2020