2018 PRELIMINARY RESULTS

RSA Insurance Group plc 28 February 2019

Pre-tax profit £480m, up 7%. Dividends 21p per share, up 7% (final dividend 13.7p)

Underlying results down, driven by higher weather costs and large loss challenges in Commercial Lines; especially London Market business

Extensive underwriting action underway, including portfolio exits announced in 2018

Underlying EPS 34.1p (2017: 43.5p), but c.42p proforma for portfolio exits and reinsurance additions[1]

Underlying return on tangible equity 12.6% (2017: 15.5%) versus 13-17% target range

Stephen Hester, RSA Group Chief Executive, commented:

"In 2018 RSA increased headline profits and dividends with a still attractive return on capital. At an underlying level however, the results represent RSA's first down year since 2013. We believe strongly that 2019 will show a bounce back and are taking decisive action to that end.

Much went well in 2018, with excellent results in many of RSA's Personal Lines businesses and good progress on expenses and other strategic initiatives. However, adverse weather costs and challenging Commercial Lines results exposed us to more volatility than expected. This was most intense in the 'London Market' business which accounted for substantially all our underperformance in the second half. We announced significant portfolio exits and initiated major pricing and re-underwriting programmes during the year. We have also made management changes and increased reinsurance coverage for 2019. Our performance ambitions for RSA are high, and unchanged. We recognise the need to demonstrate resumed progress against them."

Trading results

- Pre-tax profits up 7% to £480m (2017: £448m)
- Group operating profit £517m (2017: £663m) down 19% at constant FX: Scandinavia £306m; Canada £84m; UK & International £105m
- Underwriting profit of £250m (2017: £394m) down 33% at constant FX. Proforma underwriting profit was £344m[1] excluding losses on exit portfolios and adjusting for reinsurance additions in 2019
- Group combined ratio of 96.2% (2017: 94.0%): Scandinavia 86.8%, Canada 97.6%[2] and UK & International 101.4%. Proforma Group combined ratio 94.6%[1], UK & International 97.4%[1] and Canada 96.7%[1]:
  - Group attritional loss ratio comparable to 2017

[1] Proforma for UK exits and/ or reinsurance, see definition on pages 40 to 41; [2] After allocation of net GVC reinsurance recoveries

- Group weather costs 3.7% (2017: 2.6%) of premiums, £76m[1] above 2017; large losses elevated at 11.6% of premiums (2017: 10.8%)
- Group prior year underwriting profit of £165m (2017: £157m)

- Net written premiums ('NWP') of £6,470m up 1%[2] underlying (down 3% headline):
  - NWP up 2%[1] in Scandinavia, with Sweden up 6%[1]
  - NWP up 6%[1] in Canada. New distribution partnership with Scotiabank to commence in Q2 2019
  - NWP down 3%[1] in UK & International as underwriting and rating actions (including portfolio exits) take effect
- Group written controllable costs down 2%[1] to £1,343m (earned controllable cost ratio 20.4%, 0.7[1] points better than 2017)
- Investment income of £322m (2017: £331m) down 3%
- Statutory profit after tax £372m (2017: £322m)
- Headline earnings per share 31.8p up 21% (2017: 26.3p). Underlying EPS 34.1p, down 22% (2017: 43.5p) but down 19% at constant FX. Proforma for UK exits and/ or reinsurance, EPS c.42p[3]
- Final dividend of 13.7p per ordinary share proposed, bringing total 2018 dividends to 21p per ordinary share (up 7%) and representing a 62% payout ratio of underlying earnings and a 50% payout of proforma[3] EPS.

Capital & balance sheet

- Solvency II coverage ratio of 170% after final dividend (31 December 2017: 163%), above 130-160% target range
- Tangible equity £2.9bn (31 December 2017: £2.8bn), 279p per share
- Underlying return on tangible equity of 12.6% (2017: 15.5%) just below the 13-17% target range
- Triennial UK pension review concluded successfully. Stable long-term agreement in place to an agreed de-risked end point (see page 25)
- IFRS pension surplus £182m (2017: £88m deficit). 2018 capital impact of bond 'pull-to-par' of c.£85m (2019 outlook: c.£60m).

Strategic update

- RSA's entire focus is on the drive for outperformance in our markets. In that context, our improvements continue - targeted at customer service, underwriting capabilities and costs. In those business areas where profitability is good, we are seeing good success with growing customer volumes as a result
- RSA's 2018 underwriting results (coupled with our London Market losses in H2 2017) demonstrate too much exposure to market volatility, while accepting that volatility is an inescapable part of the insurance industry. During the year we initiated determined actions to improve the position in future:
  - Our reinsurance programmes have operated well, capping individual losses, and with a Group aggregate cover capping accumulated individual losses over £10 million. These continue, but we have supplemented them with new aggregate covers for losses between £1-10m in each of our three regions for 2019. Had these covers been in place in 2018, they would have reduced losses by c.£30m net, of which £12m would have been on continuing portfolios

[1] At constant FX; [2] Underlying measure, refer to page 38 for further information
[3] Proforma for UK exits and/ or reinsurance, see definition on pages 40 to 41

  - Our London Market Specialty & Wholesale business had 2018 premium income of £265m, but underwriting losses of £109m after net GVC reinsurance recoveries of £13m. This reflects unusually difficult conditions (including Nat Cat) across the market as well as our own underwriting shortcomings. We have announced portfolio exits and changes in underwriting appetite in this business area that reduce our activity by c.50% versus 2017 levels and a strategic review is ongoing to identify any further portfolio exits. While portfolio run-off will continue over 2019, proforma for UK exits and/ or reinsurance these changes (including two domestic UK scheme exits) would have improved UK Commercial reported 2018 underwriting profits by £110m[1]
  - In the rest of our Commercial Lines businesses, intense programmes are underway re-underwriting and re-pricing business where needed and possible, or lapsing if necessary; c.55% of the pricing and underwriting actions targeted have already been implemented
  - Underwriting capabilities continue to receive intense focus across the Group. These include more sophisticated and agile pricing models, underwriter training and portfolio discipline and technology driven insights
- A fundamental aspect of competitiveness is cost efficiency and RSA has transformed its position in this regard. There is work yet to do, especially in areas where underwriting actions are reducing business volumes. Group written controllable costs for 2018 were down 2%[2] year-on-year to £1,343m (comprising 4% cost reductions, offset by 2% inflation). With gross annual savings of £460m since the beginning of 2014, we have achieved the Group target of > £450m savings a year early and will now move cost efficiency into 'business as usual' mode.

Market update & outlook

- Insurance market conditions remain competitive across our territories with significant price/ volume trade-offs. However, rate hardening and capacity adjustment is now helping us reprice in Canada and in 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
- RSA has made strong fundamental progress in recent years. Despite 2018 setbacks, all of our international businesses have the capability to operate around the 'best-in-class' combined ratio ambitions we have articulated, albeit with Canada having a particular bounce back targeted in 2019. Our UK business faces the toughest competition and is taking longer than hoped to achieve its targets. But we firmly believe these are possible and expect the portfolio changes and other measures outlined to improve results substantially in 2019 and beyond.

[1] Proforma for UK exits and/ or reinsurance, see definition on pages 40 to 41
[2] At constant FX

MANAGEMENT REPORT – KEY FINANCIAL PERFORMANCE DATA

Management basis

£m (unless stated)	**FY 2018**	FY 2017
Profit and loss		
Group net written premiums	6,470	6,678
Underwriting profit ◊	250	394
Combined operating ratio ◊	96.2%	94.0%
Investment result ◊	275	284
Operating result ◊	**517**	**663**
Profit before tax	480	448
Underlying profit before tax ◊	**492**	**620**
Profit after tax	372	322
Net attributable profit ◊	326	269
Metrics		
Earnings per share (pence)	31.8p	26.3p
Underlying earnings per share (pence) ◊	**34.1p**	**43.5p**
Interim dividend per ordinary share (pence)	7.3p	6.6p
Final dividend per ordinary share (pence)	13.7p	13.0p
Return on tangible equity (%)	11.8%	9.4%
Underlying return on tangible equity (%) ◊	**12.6%**	**15.5%**
	31 Dec 2018	31 Dec 2017
Balance sheet		
Net asset value (£m)	3,786	3,653
Tangible net asset value (£m) ◊	2,867	2,765
Net asset value per share (pence) ◊	357p	345p
Tangible net asset value per share (pence) ◊	279p	270p
Capital		
Solvency II surplus (£bn)	1.2	1.1
Solvency II coverage ratio	**170%**	**163%**

◊ **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

In 2018, RSA delivered growth in profits and earnings per share, further dividend growth and underlying return on tangible equity of 12.6%, substantially above our cost of capital.

However, for us 2018 was a disappointing year since RSA posted the first decline in underwriting profits since 2013, driven primarily by higher weather costs and a range of loss challenges in our Commercial Lines businesses, most notably through our London Market results. While we can never be immune from external volatility, we have taken decisive action to address these losses and expect a good recovery in 2019.

Since 2013, a wide range of fundamental improvements have transformed RSA's competitive position and capabilities. These programmes, aimed towards our 'best-in-class' strategic ambitions, continued to deliver across 2018. While there are many positive examples, the strong results from our Personal Lines businesses (57% of the Group) are a fine example – delivering for both customers and shareholders despite weather headwinds.

Strategy & focus

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

Our business strategy is to sustain a disciplined focus on RSA's existing areas of market leadership, whilst driving operating improvements in pursuit of 'best-in-class' performance levels.

RSA's strategy remains a strong one, best suited for our markets. However, tough conditions in specialty & wholesale insurance markets in 2017 and 2018 have prompted a reassessment and substantial cutback of our London Market presence (4% of 2018 Group premiums) which forms part of the UK & International commercial business.

External conditions

General insurance markets are relatively mature, consolidated and stable, though with some intrinsic underwriting volatility. Attractive performance can be achieved through intense operational focus within a disciplined strategic framework.

2018 was a year with some major external underwriting challenges for the insurance industry. In common with 2017, it was an unusually poor loss year for both 'Nat Cat' losses and commercial large loss activity. Other weather related losses were also higher than long-term averages. Additionally, selected insurance lines continue to see claims inflation higher than CPI, motor most notably. Despite this backdrop, for many participants overall profitability is robust and hence competitive intensity remains high. Nevertheless, there are now real signs of pricing increases and capacity withdrawals in the worst performing lines which should help portfolio remediation where necessary.

Insurers are exposed to financial markets, and through them to political and macro-economic challenges, despite relatively well-insulated insurance activities themselves. From RSA's perspective, 2018 was comparatively uneventful in financial market impacts; although there was an adverse FX translation effect (4% of underlying EPS) from sterling strength, and bond yields did not hold the increases initially forecast as political and trade worries impacted markets in H2. Volatility remains a real risk for 2019, not least in the UK via the continuing Brexit debate. RSA earns the large majority of its profits overseas which is at least a comfort.

2018 actions

2018 was an active year at RSA with our actions falling broadly into two categories – continued operational improvement in pursuit of our 'best-in-class' ambitions and specific underwriting actions to address the underperforming areas of our business.

Financial strength: RSA's 'A' grade credit ratings are where we want them. The Solvency II capital ratio strengthened further during 2018 (170% versus 163% in 2017). We also successfully negotiated a longer term funding settlement for our UK pension plan liabilities designed to provide a more stable, lower risk future for the plans themselves and RSA as sponsor.

Business improvement: our pursuit of 'best in class' operating metrics and capabilities continues to drive much activity. This is grouped across three areas - customer service, underwriting and cost efficiency - and enabled by data, technology and our own human capital.

Where underlying profitability is good, we have been successful at growing our business and receiving positive customer support. Personal Lines policy counts rose in 2018 in all regions. We also were successful in winning a major bancassurance partnership in Canada with Scotiabank.

Cost efficiency remains a critical element of competitiveness. RSA's excellent progression continued in 2018 and our cost programmes reached gross annual savings of £460m, meeting our > £450m target a year early. This effort now becomes 'business as usual' but has contributed a 4 point improvement to our combined ratio since 2013.

Insurers are the original 'data scientists' - that is what actuaries do - and capability development through technology and data remains at the heart of our improvement efforts. Hand-in-hand goes the contribution of our people who are increasing productivity every year through technology and better ways of working, and in so doing raising their own skills and value-added contribution.

Underwriting actions: substantial actions were taken in 2018 and are continuing to address areas of underperformance in underwriting:

- In Personal Lines, the primary challenge was weather volatility which is hard to specifically manage. Canada was our worst affected territory. Auto lines claims inflation also remains a market challenge. Extensive rate increases are going through in affected portfolios, together with selected broker cancellation where rate alone is unlikely to have the required result
- In Commercial Lines more extensive action is needed. We announced portfolio exits for c.50% of our London Market business and the two remaining UK generalist MGAs. Across all our remaining Commercial Lines businesses, underwriting action and rate increases are being deployed against underperforming areas. And for 2019 we have added new reinsurance aggregate covers aiming to reduce large loss volatility in each of our regional businesses.

Financial results: at a headline level, pre-tax profits rose 7% to £480m and earnings per share rose 21%. Underlying return on tangible equity was 12.6% (versus 13-17% target range).

Nevertheless, it was a disappointing year financially with the first decline in underlying profits since 2013. Underlying EPS was 34.1p per share (2017: 43.5p), although proforma results were c.42p[1].

[1] *Proforma for UK exits and/ or reinsurance, see definition on pages 40 to 41*

The fundamentals of our business are solid. Overall premiums rose 1%[1 2] on an adjusted basis (down 3% on a reported basis), driven by growth in Personal Lines.

Our Personal Lines businesses (57% of total) showed a combined ratio of 92.4% despite higher weather costs than 2017.

In Commercial Lines we had poor results – a combined ratio of 101.9%. Proforma for portfolio exits and 2019 reinsurance additions, the ratio would have been 97.6%[3] with a range of other improvements targeted for 2019.

On a geographic basis, our Scandinavian business continues to be the most important profit contributor. A combined ratio of 86.8% was behind the 2017 record, held back by Commercial Lines large losses, but strong nevertheless. Canada fell back due to adverse weather costs and poor Commercial Lines results. A significant recovery is targeted for 2019.

As in 2017, our UK & International business recorded poor results – a combined ratio of 101.4%. Proforma for business exits, this improves to 97.4%[3] and within it were excellent Ireland and Middle East performances.

We have proposed a final dividend of 13.7p per share making 21p per share total for 2018, up 7%. This represents a 62% payout of underlying EPS and a 50% payout of proforma EPS[3] and in so doing we are aiming to smooth the impact of underwriting volatility in the light of our belief in improved future results. Our strong capital position and in-year free capital generation support this stance. RSA's dividend policy is unchanged, targeting 40-50% 'normal' payout levels with additional possible where free capital generation so supports.

Looking forward

2018's challenges have not changed our view of RSA's attractive performance potential or any of our targeted financial metrics. We recognise the importance of demonstrating resumed progress in 2019 and believe the actions are in place to support that. No business is free of challenge, and the insurance industry will undoubtedly continue to present volatility. We nevertheless are confident that good improvement can be achieved.

Thanks

RSA benefits enormously from the support of our stakeholders every year. Customers and shareholders represent our key audience. However, the contributions of my colleagues is what makes possible all we accomplish. My sincere thanks to them for their efforts in 2018. The future for RSA is bright if we make it so.

Stephen Hester
Group Chief Executive
27 February 2019

[1] At constant FX
[2] Underlying measure, refer to page 38 for further information
[3] Proforma for UK exits and/ or reinsurance, see definition on pages 40 to 41

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**	**Group 2017 £m**
Net written premiums	**1,817**	**1,652**	**3,100**	**(99)**	**6,470**	**6,678**
Net earned premiums	1,807	1,607	3,129	(6)	6,537	6,605
Net incurred claims	(1,257)	(1,148)	(2,114)	39	(4,480)	(4,350)
Commissions	(64)	(211)	(611)	-	(886)	(911)
Operating expenses	(248)	(223)	(447)	(3)	(921)	(950)
Underwriting result ◊	**238**	**25**	**(43)**	**30**	**250**	**394**
Investment income	94	65	163	-	322	331
Investment expenses	(3)	(3)	(8)	-	(14)	(13)
Unwind of discount	(23)	(3)	(7)	-	(33)	(34)
Investment result ◊	**68**	**59**	**148**	**-**	**275**	**284**
Central expenses	-	-	-	(8)	(8)	(15)
Operating result ◊	**306**	**84**	**105**	**22**	**517**	**663**
Interest					(25)	(43)
Other non-operating charges					(12)	(172)
Profit before tax					**480**	**448**
Tax					(108)	(126)
Profit after tax					**372**	**322**
Non-controlling interest					(23)	(33)
Other equity costs[1]					(23)	(20)
Net attributable profit ◊					**326**	**269**
Underlying profit before tax ◊					**492**	**620**
Loss ratio (%)	69.6	71.5	67.6	-	68.5	65.9
Weather loss ratio	*0.4*	*6.8*	*5.7*	-	*3.7*	*2.6*
Large loss ratio	*8.9*	*9.4*	*14.2*	-	*11.6*	*10.8*
Current year attritional loss ratio ◊	*63.3*	*58.1*	*50.1*	-	*55.8*	*55.3*
Prior year effect on loss ratio	*(3.0)*	*(2.8)*	*(2.4)*	-	*(2.6)*	*(2.8)*
Commission ratio (%)	3.5	13.1	19.5	-	13.6	13.7
Expense ratio (%)	13.7	13.9	14.3	-	14.1	14.4
Combined ratio (%)◊	**86.8**	**98.5**	**101.4**	**-**	**96.2**	**94.0**
After allocation of GVC reinsurance recoveries		97.6				
Earned controllable expense ratio (%) ◊	21.1	17.3	21.4	-	20.4	21.0
Proforma for exits and/ or reinsurance[2]						
Underwriting result ◊		53	77		344	
Operating result ◊		112	225		611	
Combined ratio (%) ◊		96.7	97.4		94.6	

Notes:

UK & International comprises the UK (and European branches), Ireland and Middle East. Please refer to appendix for 2017 comparatives.

[1] *Preference dividends of £9m and coupons of £14m paid on Restricted Tier 1 securities*
[2] *See definition on pages 40 to 41*

Premiums

Net written premiums of £6,470m were down 1% at constant FX but up 1% on an underlying basis[1]. Premiums were dampened by c.£180m due to costs for the triennial GVC renewal and a reduction in retention levels for certain reinsurance programmes. These were budgeted in our plans. Foreign exchange movements provided a 2% headwind to premiums year-on-year.

We continue to see a strengthening of underlying customer activity where capability improvements take effect. Customer satisfaction measures, such as net promoter score ('NPS'), and sales and service metrics are generally good, although with improvement still targeted. Group retention was slightly lower at 80% (2017: 81%). In Personal Lines, Canada was up, Scandinavia was flat and UK & International was down as a result of underwriting and rating action.

Regional trends for 2018 include:

- Scandinavian premiums were down 1% at reported FX but up 2% at constant FX. Attractive growth in Sweden was partly offset by contraction in Norway. Personal Lines policies-in-force ('PIFs') were up 1%, while Commercial Lines volumes (excluding rate) were down 8%
- Canadian premiums were up 2% at reported FX and up 6% at constant FX. The region continued the positive growth trends seen in 2017, with Personal Lines PIFs up 1% and Commercial Lines volumes up 1% (excluding rate). Retention is performing particularly well with both Johnson, our direct and affinity channel, and Personal broker improving over the last year to 90% and 89% respectively. Johnson continued to grow organically, achieving growth of 4% in 2018
- Net written premiums were down 3% in UK & International or down 1% excluding reinsurance changes, both at constant FX. Personal Lines PIFs were up 2%, while Commercial Lines volumes (excluding rate) were down 8%. Our partnership with Nationwide in the UK is doing well; retention was 85% in 2018 and NPS scores remained strong. However, overall premiums were down as we re-priced and re-underwrote certain portfolios, exited two domestic schemes and commenced the portfolio exits and changes in underwriting appetite which we announced for our Specialty & Wholesale business. Net written premiums in Ireland were up 2% at constant FX, while premiums in the Middle East were down 1%.

More detail is provided in the regional reviews on pages 15 to 20.

[1] Underlying measure, please refer to page 38 for further information

Underwriting result

Group underwriting profit of £250m (2017: £394m):

	Total UW result ◊		Current Year UW ◊		Prior Year UW ◊	
£m	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Scandinavia	238	315	182	255	56	60
Canada	25	98	(21)	56	46	42
UK & International	(43)	(82)	(111)	(110)	68	28
Central functions	30	63	35	36	(5)	27
Total Group	**250**	**394**	**85**	**237**	**165**	**157**

- The Group attritional loss ratio of 55.8% was 0.2 points[1] higher than 2017. In Scandinavia, the attritional loss ratio increased by 0.7 points. Personal Lines improved in Sweden and Denmark, while Commercial Lines deteriorated. In Canada, the loss ratio increased by 1.3 points due to higher mid-sized losses in Household and claims inflation in Commercial Auto. The UK & International loss ratio reduced by 0.8 points[1] in 2018. In the UK, improvements in Household and Pet were dampened by increases in Marine and Motor. The improvement in Household of 4.1 points reflected our actions to address the 'escape of water' issue which presented in H2 2017
- 2018 was heavily impacted by weather, with losses of £242m or 3.7% of net earned premiums (2017: 2.6%; five year average: 3.1%[2]). Canada was the most affected with a weather ratio of 6.8%. Insured damage for severe weather events across Canada in 2018 reached $1.9bn[3] for the industry, the fourth-highest loss year on record. The UK & Ireland experienced a series of severe winter storms, with Storm Emma costing an estimated £50m. Finally, the UK experienced an increase in subsidence claims as a result of the hot and dry summer weather. Nat Cat losses on London Market business were below 2017, but high on an historic basis
- Large losses were £758m or 11.6% of net earned premiums (2017: 10.8%; five year average: 9.6%[2]). Scandinavia increased by 3.2 points, mainly driven by the Interconnector segment (now exited) and a Commercial Property fire loss in Denmark. Large losses were 1.7 points higher in Canada, with Property classes seeing an increase in H2. While the UK & International ratio was down 1.3 points, disappointingly, it remained elevated versus our plans and the five year average. This reflected large loss volatility mainly in Specialty & Wholesale, in addition to the need to improve underwriting in certain areas. The segments that are the subject of the exits contributed 2.1% points to the UK & International ratio (they will substantially run-off in 2019). The new regional aggregate reinsurance covers for losses between £1-10m would have reduced Group losses by c.£30m net or 0.5 points had they been in effect for 2018 or £12m excluding losses on exited portfolios.

Group prior year profit of £165m provided a 2.6 point benefit (2017: 2.8 points) to the combined ratio. This was higher than our planning assumption and included positive development from each region.

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.

Proforma for UK exits and/ or reinsurance, the combined ratio for UK & International was 97.4%[4], Canada was 96.7%[4] and the Group was 94.6%[4].

[1] Underlying measure, please refer to pages 32 to 41 for further information; [2] 2014 to 2018; [3] Source: Catastrophe Indices and Quantification Inc.; [4] Proforma for UK exits and/ or reinsurance, see definition on pages 40 to 41

Underwriting operating expenses

The Group underwriting expense ratio of 14.1% was 0.3 points better than 2017 at constant FX. Scandinavia improved by 0.9 points and Canada improved by 1.3 points. The expense ratio in UK & International increased by 0.5 points, mainly due to a contraction in premiums.

Commissions

The Group commission ratio of 13.6% decreased slightly (2017: 13.9%[1]), mainly due to a lower proportion of Commercial Lines in the business mix.

Investment result

The investment result was £275m (2017: £284m) with investment income of £322m (2017: £331m), investment expenses of £14m (2017: £13m) and the liability discount unwind of £33m (2017: £34m).

Investment income was down 3% on prior year, primarily reflecting the impact of reinvestment at lower yields which was partially 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 2.5% (2017: 2.5%).

Based on current forward bond yields and foreign exchange rates, it is estimated that investment income will be c.£285-300m for 2019, c.£270-290m for 2020 and c.£265-285m for 2021. The discount unwind is expected to be in the region of c.£30-35m per annum and investment expenses are expected to be c.£13m per annum.

Controllable costs

Group written controllable costs were down 2%[1] to £1,343m. This comprised 4% cost reductions, offset by 2% inflation. Scandinavia delivered year-on-year cost reductions of 10%, Canada delivered 2% and UK & International delivered 3%, all at constant FX.

Group FTE[2] is down 26% (excluding disposals) since the beginning of 2014 to 12,244 at 31 December 2018. FTE decreased by 3% during 2018.

The earned controllable expense ratio improved by 0.7[1] points to 20.4% in 2018. It is now down over 4[1] points since 2013, making good progress towards our ambition of an earned controllable expense ratio of less than 20%.

Our cost reduction programme has now delivered total gross cost reductions of £460m since 2013, reaching our target of £450m in savings a year early, and we have moved cost efficiency into 'business as usual' mode.

Earned controllable expense ratio: ◊	Scandinavia %	Canada %	UK & International %	**Total** **%**
Year ended 31 December 2018	**21.1**	**17.3**	**21.4**	**20.4**
Year ended 31 December 2017	23.1	18.6	20.8	21.0

Non-operating items

Interest costs:

- Interest costs were £25m (£39m including the Tier 1 issuance), down from £43m in 2017. The reduction reflects the debt restructuring actions taken in 2016 and 2017. From 2019, changes to lease accounting (IFRS 16), mainly on properties, will add c.£7m to this line

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

- Coupon costs of £14m (2017: £11m) for the 2017 Tier 1 issuance are presented at the bottom of the management P&L as 'other equity costs'. Under IFRS, these are recognised in the statement of changes equity.

Other non-operating charges:

£m	2018	2017
Net gains/ losses/ FX	20	47
Debt buyback premium	-	(59)
Restructuring costs	-	(155)
Amortisation	(13)	(15)
Pension net interest cost	(6)	(7)
Goodwill/ intangible asset write-backs/ (downs)	(7)	17
Other	(6)	-
Total	**(12)**	**(172)**

- Net gains of £47m in 2017 included a £66m gain relating to the UK Legacy disposal (mainly mark-to-market of the assets transferred to the buyer) and a £22m charge relating to the commutation of the Group's adverse development reinsurance cover
- 2017 also included a charge of £59m relating to the premium paid on the retirement of c.£600m in high coupon debt
- No non-operating reorganisation costs were incurred during the year (2017: £155m)
- A goodwill impairment charge of £7m relating to the Group's investment in Norway was recognised in 2018. The goodwill write-back of £17m in 2017 reflected the re-measurement of the fair value of the Oman business following its IPO process.

Tax

The Group reported a tax charge of £108m for 2018, giving an effective tax rate (ETR) of 23% (2017: 28%). The tax charge largely comprises tax payable on overseas profits. The Group underlying tax rate for 2018 was 20% (2017: 22%).

The carrying value of the Group's deferred tax assets at 31 December 2018 was £234m (2017: £276m), of which £189m (2017: £217m) are in the UK. The decrease in 2018 is mainly due to a reduction in the IAS 19 deficit on a UK pension fund. At current tax rates, a further c.£261m (2017: c.£229m) 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 2018 was £79m (2017: £56m), the majority of which are in Sweden and Denmark. The increase in 2018 is mainly due to a change in the taxation basis for AFS investments in Sweden.

In 2019, we continue to expect the Group's ETR and underlying tax rate to trend towards 20% given the scale of the unrecognised UK tax assets.

Dividend

We are pleased to declare a final dividend of 13.7p per ordinary share (2017: 13.0p). Together with the interim dividend of 7.3p, this brings the total dividend for the year to 21p (up 7%), representing a 62% payout of underlying EPS and a 50% payout of proforma EPS[1]. Our medium term policy of ordinary dividend payouts of between 40-50% of earnings remains, with additional distributions where justified.

[1] *Proforma for UK exits and/ or reinsurance, see definition on pages 40 to 41*

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 2018	**3,653**	**152**	**297**	**4,102**	**441**	**4,543**	**2,765**
Profit after tax	349	23	-	372	-	372	450
Foreign exchange losses net of tax	(21)	8	-	(13)	-	(13)	(16)
Fair value losses net of tax	(146)	(1)	-	(147)	-	(147)	(146)
Pension fund gains net of tax	161	-	-	161	-	161	161
Share issue	5	-	-	5	-	5	5
Share based payments	12	-	-	12	-	12	12
Prior year final dividend	(133)	(14)	-	(147)	-	(147)	(133)
Interim dividend	(75)	-	-	(75)	-	(75)	(75)
Other equity costs[2]	(23)	-	-	(23)	-	(23)	(23)
Changes in interests in subsidiaries	4	-	-	4	-	4	4
Goodwill and net intangible additions	-	-	-	-	-	-	(137)
Balance at 31 December 2018	**3,786**	**168**	**297**	**4,251**	**441**	**4,692**	**2,867**
Per share (pence) ◊							
At 1 January 2018	345						**270**
At 31 December 2018	**357**						**279**

Tangible net assets increased by 4% to £2.9bn at 31 December 2018.

The increase was driven by profit after tax of £450m[3] offset by fair value mark-to-market movements of £146m, mainly reflecting a reduction in the bond unrealised gains reserve driven by the bond pull-to-par effect as well as widening credit spreads. Payment of the 2017 final and 2018 interim dividends (totalling £208m) also reduced tangible net assets, together with investment of £133m in intangible assets, primarily IT related (net investment of £44m after amortisation shown as part of profit).

The IAS 19 pension valuation generated a gain of £161m and this was primarily as a result of wider 'AA' corporate bond spreads, further pension contributions and mortality assumption updates (see page 25 for further detail).

TNAV per share increased by 3% to 279p.

[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 2018	**1.8**	**3.0**	**1.2**	**170%**
31 December 2017	1.8	2.9	1.1	163%

The Solvency II coverage ratio[1] increased to 170% during 2018 (31 December 2017: 163%):

	%
At 1 January 2018	**163**
Underlying capital generation	22
Net capital investment after amortisation	(3)
Pull-to-par on unrealised bond gains	(5)
2018 dividends	(12)
Market movements including IAS 19 and other	5
At 31 December 2018	**170%**

Please refer to appendix (page 24) for further Solvency II details (including sensitivities).

OUTLOOK

RSA has made strong fundamental progress in recent years. Despite 2018 setbacks, all of our international businesses have the capability to operate around the ‘best-in-class’ combined ratio ambitions we have articulated, albeit with Canada having a particular bounce back targeted in 2019. Our UK business faces the toughest competition and is taking longer than hoped to achieve its targets. But we firmly believe these are possible and expect the portfolio changes and other measures outlined to improve results substantially in 2019 and beyond.

[1] The Solvency II capital position at 31 December 2018 is estimated

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REGIONAL REVIEW – SCANDINAVIA

Management basis

	Net written premiums 2018 £m	2017 £m	Change CFX %	Underwriting results 2018 £m	2017 £m	Change CFX %
Split by country						
Sweden	1,062	1,055	6	251	259	3
Denmark	627	623	-	6	61	(90)
Norway	128	155	(16)	(19)	(5)	(329)
Total Scandinavia	**1,817**	**1,833**	**2**	**238**	**315**	**(21)**
Split by class						
Household	362	362	3			
Personal Motor	364	353	7			
Personal Accident & Other	355	339	10			
Total Scandinavia Personal	**1,081**	**1,054**	**6**	**222**	**240**	**(3)**
Policy count change			*1*			
Property	315	327	(2)			
Liability	144	147	(1)			
Commercial Motor	211	214	2			
Other	66	91	(26)			
Total Scandinavia Commercial	**736**	**779**	**(4)**	**16**	**75**	**(78)**
Volume change			*(8)*			
Total Scandinavia	**1,817**	**1,833**	**2**	**238**	**315**	**(21)**
Investment result				68	74	(11)
Scandinavia operating result				**306**	**389**	**(19)**

Operating ratios (%)	**Claims** 2018	2017	**Commission** 2018	2017	**Expenses** 2018	2017	**Combined** 2018	2017
Scandinavia Personal	**63.5**	61.2	**3.0**	3.1	**12.4**	12.7	**78.9**	77.0
Scandinavia Commercial	**78.0**	70.5	**4.4**	3.4	**15.5**	16.7	**97.9**	90.6
Total Scandinavia	**69.6**	65.2	**3.5**	3.2	**13.7**	14.5	**86.8**	82.9
Earned controllable expense ratio					21.1	23.1		

Claims ratio:			*5 year average*
Weather loss ratio	*0.4*	*0.1*	*0.7*
Large loss ratio	*8.9*	*5.7*	*6.1*
Current year attritional loss ratio	*63.3*	*62.6*	
Prior year effect on loss ratio	*(3.0)*	*(3.2)*	

SCANDINAVIA

Scandinavia delivered operating profit of £306m, down 19%[1]. The combined ratio of 86.8% was 3.9 points higher than last year. Personal Lines remained excellent with a combined ratio of 78.9%; however, Commercial Lines increased by 7.3 points to a combined ratio of 97.9%. The Interconnector segment of 'Tech Lines' contributed 4.7 points to the Commercial Lines combined ratio and is being exited, while a Property fire in Denmark in H1 added 1.6 points.

Net written premiums of £1,817m were up 2% at constant FX, with Personal Lines premiums up 6%[1]. Swedish Personal Lines grew by 8%[1] and policies-in-force ('PIFs') were 2% higher year-on-year. Motor PIFs were up 4%, mainly due to strong online new business sales, while Personal Accident grew by 2%, helped by higher retention. Danish Personal Lines premiums were up 2%[1] within which Motor PIFs grew by 2%. Commercial Lines premiums were down 4%[1] with volumes down 8%. A non-recurring 2017 risk, together with a 2017 large scheme exit, accounted for 3%[1] of the reduction in Commercial Lines premiums (both in Norway).

Customer metrics improved further. We rolled out an 'effortless' measure to determine and track how seamless customer interactions are against defined targets. Danish Personal Lines reported a particularly positive Q4 score of 80%. Customer satisfaction scores improved in both Sweden and Denmark this year, reaching 77% and 81% respectively in Q4. In Sweden, call centre availability was 90% in Q4 and online sales were 53% higher than last year, reflecting our continuing capability investment. Retention was in line with 2017 at 82%. Sweden improved, Denmark was flat and Norway deteriorated.

The current year attritional loss ratio of 63.3% increased by 0.7 points. While Sweden was in line with 2017, Danish Commercial Property increased. Norway was impacted by higher weather-related frequency, Motor claims inflation, mid-sized Commercial Property losses and underperforming schemes currently in remediation. Large losses were elevated at 8.9% compared to the five year average of 6.1% (2017: 5.7%). This was dominated by the (exited) Interconnector segment and by a Commercial Property fire loss in Denmark. All large losses are independently reviewed and the results to date point to volatility rather than an underwriting trend.

The performance improvement programme continued to deliver well. This includes working to optimise data management across the region, investing in a data analytics team and an IT hub has been established in Malmö.

Written controllable expenses were down 8% year-on-year[1], with 10% cost reductions absorbing 2% inflation. The earned controllable cost ratio of 21.1% improved by 2 points. Staff related costs reduced by 10%[1] in 2018 with headcount down 5% against 2017 and down 27% since the end of 2013. Denmark reduced their controllable cost ratio by a pleasing 4.6 points, while Sweden improved by 1.5 points.

Geographically, Sweden generated an underwriting profit of £251m (2017: £245m[1]) and a combined ratio of 75.7% (2017: 75.3%[1]). The movement was mainly driven by the weather loss ratio which was 0.6 points higher than last year. Denmark produced an underwriting profit of £6m (2017: £62m[1]) and a combined ratio of 99.0% (2017: 90.3%[1]). Pleasingly, the Personal Lines combined ratio improved by 1.4 points helped by a reduction in the attritional loss ratio. The Commercial Lines combined ratio deteriorated by 15.6 points due to elevated large losses and, to a lesser extent, a lower prior year result. The underwriting loss in Norway of £19m (2017: £4m[1] loss) reflected a deterioration in attritional claims, higher large losses and higher operating costs. 2018 was a challenging year for all players in Norway.

[1] At constant FX

REGIONAL REVIEW – CANADA

Management basis

	Net written premiums 2018 £m	2017 £m	Change CFX %	Underwriting result 2018 £m	2017 £m	Change CFX %
Household	512	498	6			
Personal Motor	641	622	7			
Total Canada Personal	**1,153**	**1,120**	**6**	**29**	**75**	**(60)**
Policy count change			*1*			
Property	215	218	2			
Liability	105	109	-			
Commercial Motor	127	119	11			
Marine & Other	52	53	1			
Total Canada Commercial	**499**	**499**	**3**	**(4)**	**23**	**(120)**
Volume change			*1*			
Total Canada	**1,652**	**1,619**	**6**	**25**	**98**	**(74)**
Canada proforma[1]				***53***		
Investment result				59	61	1
Canada operating result				**84**	**159**	**(45)**
Canada proforma[1]				***112***		

Operating ratios (%)	Claims 2018	2017	Commission 2018	2017	Expenses 2018	2017	Combined 2018	2017
Canada Personal	**72.6**	67.1	**10.9**	11.2	**13.9**	14.9	**97.4**	93.2
Canada Commercial	**68.8**	61.3	**18.2**	18.3	**13.9**	15.8	**100.9**	95.4
Total Canada	**71.5**	65.3	**13.1**	13.4	**13.9**	15.2	**98.5**	93.9
Canada proforma[1]							***96.7***	
Earned controllable expense ratio					***17.3***	*18.6*		

Claims ratio:			*5 year average*
Weather loss ratio	*6.8*	*3.7*	*4.7*
Large loss ratio	*9.4*	*7.7*	*6.4*
Current year attritional loss ratio	*58.1*	*56.8*	
Prior year effect on loss ratio	*(2.8)*	*(2.9)*	

[1] *Proforma for reinsurance, see definition on pages 40 to 41*

CANADA

Canada delivered operating profit of £84m for 2018. This was down from £153m[1] in 2017. The combined ratio was 98.5%. Adverse weather was the dominant feature, while large losses also increased. The combined ratio improves to 96.7%[2] proforma for net GVC recoveries and for new 2019 reinsurance additions.

Net written premiums of £1,652m were up 6% at constant FX (2017: £1,565m[1]). In Personal Lines, policy counts were up 1% and Johnson, our direct and affinity business, continued to grow organically (4%). Retention remained strong, with both Johnson and Personal broker improving over last year to 90% and 89% respectively. We held our pricing discipline in both Auto and Household, achieving rate above our plans and last year. Volumes increased by 1% in Commercial Lines. New business and rate were up, while retention was down. Growth in Auto in H1 was tempered in H2 in response to pressure on loss ratios.

We continue to work hard on our customer offering, establishing an Executive Customer Board during the year. All Johnson NPS metrics were better than target for Q4, with an agent NPS of +70 reflecting the strength of our front-line customer experience. Self-service Household and Auto transactions in Johnson were up 34% year-on-year, while chat volumes increased by 107%. The Q4 'voice of the broker' survey scored the ease of doing business with us at 74%. NPS for 'RSA Pro' (our new online quote and bind tool for SMEs) was a pleasing +67 for Q4.

We announced our important new partnership with Scotiabank in August and expect to start writing new business in Q2 2019, with renewals following in Q3. The integration of the Deek's acquisition is going well, evidenced by retention in the mid-90s.

The weather loss ratio increased by 3.1 points to 6.8%, compared to a five year average of 4.7%. Insured damage for severe weather events in 2018 reached $1.9bn[3] for the industry, the fourth-highest loss year on record. Relative to peers, our book is slightly weighted towards Property risks which are more exposed to weather events. The large loss ratio was also elevated at 9.4% for 2018, compared to a five year average of 6.4%; losses increased mainly in the Property classes. The 2019 aggregate cover for losses between £1-10m would have reduced losses by c.£14m net or 1 point had it been in effect for 2018. The attritional loss ratio of 58.1% increased by 1.3 points. Increased frequency and severity in mid-sized losses (particularly fire) impacted Household, while Commercial Auto saw higher loss ratios in certain lines. The attritional ratio was steady in Personal Auto, as rate and claims initiatives struggled to outpace inflation. Ontario and Alberta make up the majority of our Auto premiums and we have applied almost 10% of rate in these provinces in the last 18 months. Additional rate is targeted in 2019 of between 3% and 16%, depending on the province and channel, and subject to regulatory approval.

Our business improvement programme continues to progress well. Enhancements to pricing sophistication include more segmented peril rating in Household, where we have introduced more than 20 new target segments. Radar is helping us to improve the speed and efficacy of our non-regulatory rate filings and the implementation of Guidewire is proceeding as planned.

Written controllable expenses of £289m were in line[1] with 2017 or down 2%[1] excluding inflation. While staff costs were 6%[1] lower, higher software amortisation and IT costs reflected capability investments and supported growth initiatives. Importantly, the earned controllable expense ratio of 17.3% improved again. Productivity also improved, with a 13% increase in premiums per FTE in December 2018 compared to December 2017. Finally, headcount was down 6% in 2018 and is now down 26% since the end of 2013.

[1] At constant FX; [2] Proforma for reinsurance, see definition on pages 40 to 41

[3] Source: Catastrophe Indices and Quantification Inc.

REGIONAL REVIEW – UK & INTERNATIONAL

Management basis

	Net written premiums 2018 £m	2017 £m	Change CFX %	Underwriting result 2018 £m	2017 £m	Change CFX %
Household	651	559	16			
Personal Motor	254	303	(16)			
Pet	262	282	(7)			
Total UK Personal	**1,167**	**1,144**	**2**	**(23)**	**10**	**(337)**
Policy count change			*2*			
Property	606	676	(11)			
Liability	296	294	-			
Commercial Motor	194	226	(14)			
Marine & Other	326	348	(5)			
Total UK Commercial	**1,422**	**1,544**	**(8)**	**(83)**	**(126)**	**34**
Volume change			*(9)*			
Total UK	**2,589**	**2,688**	**(4)**	**(106)**	**(116)**	**9**
UK proforma[1]				***14***		
Ireland	312	303	2	30	9	213
Middle East	199	208	(1)	33	25	38
Total UK & International	**3,100**	**3,199**	**(3)**	**(43)**	**(82)**	**48**
UK & International proforma[1]				***77***		
Investment result				**148**	149	(1)
UK & International operating result				**105**	**67**	**60**
UK & International proforma[1]				***225***		

Operating ratios (%)	Claims 2018	2017	Commission 2018	2017	Expenses 2018	2017	Combined 2018	2017
Total UK Personal	**63.2**	62.7	**21.0**	20.3	**17.8**	16.2	**102.0**	99.2
Total UK Commercial	**74.8**	75.3	**20.2**	21.7	**10.7**	11.1	**105.7**	108.1
Total UK	**69.7**	70.0	**20.5**	21.1	**13.8**	13.2	**104.0**	104.3
UK proforma[1]							***99.4***	
Ireland	64.1	71.8	11.8	11.7	14.3	13.5	90.2	97.0
Middle East	45.3	48.5	17.6	17.3	20.5	21.9	83.4	87.7
UK & International	**67.6**	68.8	**19.5**	20.0	**14.3**	13.8	**101.4**	102.6
UK & International proforma[1]							***97.4***	
Earned controllable expense ratio					***21.4***	*20.8*		

	2018	2017	5 year average
Claims ratio:			
Weather loss ratio	*5.7*	*4.8*	*4.6*
Large loss ratio	*14.2*	*15.5*	*12.8*
Current year attritional loss ratio	*50.1*	*50.1*	
Prior year effect on loss ratio	*(2.4)*	*(1.6)*	

[1] Proforma for UK exits and/ or reinsurance, see definition on pages 40 to 41

UK & INTERNATIONAL

UK & International reported an operating profit of £105m in 2018, up 60%[1]. The combined ratio was 101.4% (2017: 102.6%). The combined ratio improves to 97.4%[2] proforma for UK exits and new 2019 reinsurance.

UK

The UK reported an underwriting loss of £106m in 2018 and a combined ratio of 104%. In November, we announced portfolio exits in Speciality & Wholesale, part of our 'London Market' international business. These changes, also including a number of domestic MGA exits, would have improved the 2018 underwriting result by £120m had they been in effect for the full year, or £95m excluding net GVC recoveries foregone on exit portfolios (£25m). The proforma combined ratio improves to 99.4%[2] on this basis.

Net written premiums were down 4% in 2018 or 2% excluding reinsurance changes. Headline premiums were dampened by £44m due to higher reinsurance costs resulting from a reduction in retention levels for certain programmes. Personal Lines premiums were up 2% as reported or up 4% excluding reinsurance changes. Household premiums were up 16%. Our Nationwide partnership is doing well and generated premiums of £170m in its first year of trading; retention was 85% and NPS scores remain strong (claims +63; sales and service +65). On the wider book, we held our discipline on rate to mitigate the 'escape of water' issues which presented in H2 2017. However, rate of between 3% and 19%, depending on the channel, drove a decrease in retention and new business. Motor premiums were 16% lower than last year (10% excluding reinsurance changes). We applied rate of 10% and this impacted retention and new business. Pet volumes were down and were impacted by rate also.

Commercial Lines premiums were down 8% as reported, but down 6% excluding reinsurance changes. Rate has been positive in all major classes; for example, Motor achieved rate of 5% and Marine achieved 6%. However, this has meant a trade-off with top line (volumes down 9%) in ongoing soft market conditions. The decrease in premiums also reflected our exit from certain large schemes as we restructure our delegated authority book, underwriting decisions on some large individual risks (notably in Property and Marine) and the restructuring of Speciality & Wholesale. The latter is expected to reduce premiums written through the London Market by c.£150m per annum versus 2017.

The weather loss ratio increased by 0.9 points. Storm Emma cost c.£45m, while subsidence claims increased as a result of the hot and dry summer weather in the UK. While large losses reduced by 1.2 points, they remained elevated in Specialty & Wholesale (particularly Marine). Excluding the impact of reinsurance changes, the attritional loss ratio of 48.5% reduced by 0.3 points in 2018. Improvements in Household and Pet were dampened by increases in Marine and Motor.

Written controllable expenses of £551m were flat, with 3% cost reductions offset by 3% inflation. The earned controllable cost ratio of 20.9% increased by 0.6 points, mainly due to the contraction in premiums. Headcount is down 24% since the end of 2013.

Ireland and the Middle East

Ireland's performance improved strongly in 2018, generating an underwriting profit of £30m (2017: £9m) on a combined ratio of 90.2% (2017: 97.0%). The attritional loss ratio of 57.6% was 2.8 points better, while the large loss ratio improved by 1.7 points. Prior year development was a favourable 3.7%, compared to adverse development of 0.2% in 2017. The Middle East delivered an underwriting profit of £33m (2017: £25m) and another record combined ratio of 83.4% (2017: 87.7%). The attritional loss ratio improved by 2.5 points.

[1] At constant FX; [2] Proforma for UK exits and/ or reinsurance, see definition on pages 40 to 41

INVESTMENT PERFORMANCE

Management basis

Investment result	2018 £m	2017 £m	Change %
Bonds	242	262	(8)
Equities	35	32	9
Cash and cash equivalents	10	5	100
Property	19	21	(10)
Other	16	11	45
Investment income	**322**	**331**	**(3)**
Investment expenses	(14)	(13)	(8)
Unwind of discount	(33)	(34)	3
Investment result	**275**	**284**	**(3)**

Balance sheet unrealised gains (pre-tax)	31 Dec 2018 (£m)	31 Dec 2017 (£m)	Change %
Bonds	272	397	(31)
Equities	(22)	30	(173)
Other	-	1	(100)
Total	**250**	**428**	**(42)**

Investment portfolio	Value 31 Dec 2017	Foreign exchange	Mark to market	Other movements	Transfer from assets held for sale	Value 31 Dec 2018
	£m	£m	£m	£m	£m	£m
Government bonds	3,850	(39)	(23)	177	-	3,965
Non-Government bonds	6,810	(24)	(142)	(139)	-	6,505
Cash	1,048	(5)	-	(255)	-	788
Equities	242	(8)	(52)	23	-	205
Property	308	-	8	(6)	-	310
Prefs & CIVs	522	-	-	12	-	534
Other	219	(2)	2	30	-	249
Total	**12,999**	**(78)**	**(207)**	**(158)**	**-**	**12,556**
Split by currency:						
Sterling	3,468					3,114
Danish Krone	1,096					1,148
Swedish Krona	2,588					2,465
Canadian Dollar	3,079					2,928
Euro	1,443					1,423
Other	1,325					1,478
Total	**12,999**					**12,556**

Credit quality – bond portfolio	Non-government		Government	
	31 Dec 2018 %	31 Dec 2017 %	**30 Dec 2018 %**	31 Dec 2017 %
AAA	43	42	66	66
AA	15	15	30	30
A	27	30	4	4
BBB	13	11	-	-
< BBB	2	2	-	-
Non-rated	-	-	-	-
Total	**100**	**100**	**100**	**100**

INVESTMENT PERFORMANCE

Investment income of £322m (2017: £331m) was offset by investment expenses of £14m (2017: £13m) and the liability discount unwind of £33m (2017: £34m). Investment income was down on prior year reflecting the impact of reinvestment at lower yields which was partially offset by increased income from actions taken on the portfolios to increased exposure to less liquid credit investments.

The average book yield for 2018 on the total portfolio was 2.5% (2017: 2.5%), with an average yield on the bond portfolios of 2.3% (2017: 2.4%). Reinvestment rates in the Group's major bond portfolios were approximately 1.6%.

At 31 December 2018, the average duration of the Group's bond portfolios of 3.8 years was approximately the same as at the prior year end (31 December 2017: 3.8 years).

The investment portfolio decreased by 3% during the year to £12.6bn. The largest element of this movement was driven primarily by negative mark-to-market on bond holdings.

At 31 December 2018, high quality widely diversified fixed income securities represented 83% of the portfolio (31 December 2017: 82%). Equities (largely REITs) represented 2% (31 December 2017: 2%) and cash was 6% of the total portfolio (31 December 2017: 8%).

The quality of the bond portfolio remains very high with 98% investment grade and 72% rated AA or above. We remain well diversified by sector and geography.

Unrealised bond gains and pull-to-par

At year-end, balance sheet unrealised gains of £250m (pre-tax) had reduced by £178m or 42% during 2018, driven by negative mark-to-market on bond holdings due to yield movements and bond pull-to-par.

Based on year-end forward yields, we anticipate that unrealised gains on the AFS bond portfolio should largely unwind over the next 3 years, with c.£120m expected to unwind in 2019. The capital impact of this amount is around £60m, the balance being projected yield change. The capital impact from pull-to-par is expected to fall in 2020 and 2021 based on current market forward yield curves.

APPENDIX 1

Further information

CAPITAL

Solvency II sensitivities

2018 coverage ratio	**170%**	
Sensitivities (change in coverage ratio):	Including pensions[1]	Excluding pensions
Interest rates: +1% non-parallel[2] shift	+6%	+6%
Interest rates: -1% non-parallel[2] shift	-8%	-7%
Equities: -15%	-6%	-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	-2%	-2%
Credit spreads: -0.25% parallel shift	-9%	+2%

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

Reconciliation of IFRS total capital to Eligible Own Funds

	31 Dec 2018 £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	(0.1)
Eligible Own Funds	**3.0**

[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.*

PENSIONS

Funding basis

We are pleased to report that we have reached agreement with the Trustees of RSA's main UK pension schemes on the results of the latest triennial actuarial valuations. The two schemes had an aggregate funding deficit at 31 March 2018 of £468m, equivalent to 95% funding adequacy (2015: 95%).

Core deficit contributions are to remain at £65m per annum, with the potential for additional contributions of £10m per annum to be paid, dependent on Group capital levels. The Group expects to continue to pay contributions at this level until the schemes are fully funded on a lower-risk basis. In addition, the Group has made a further one-off payment of c.£65m, the majority of which was paid in 2018.

These commitments provide the pension schemes with greater security, while reducing the level of pension risk for the Group.

Accounting basis

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 2018 to 31 December 2018:

	UK £m	non-UK £m	Group £m
Net pension fund deficit at 1 January 2018	**(23)**	**(65)**	**(88)**
Actuarial gains[1]	234	10	244
Tax movements	(94)	(6)	(100)
Deficit funding	110	1	111
Other movements[2]	5	10	15
Pension fund surplus/ (deficit) at 31 December 2018	**232**	**(50)**	**182**

At an aggregate level, the pension fund position under IAS 19 improved during the year from a £88m deficit at 1 January 2018 to a surplus of £182m at 31 December 2018 (net of tax).

The IAS 19 surplus for the UK pension schemes now stands at £232m, with the improvement driven primarily by deficit funding contributions (£110m pre-tax), updated views of life expectancy and widening credit spreads.

IAS 19 sensitivities on UK schemes

	Assets	Liabilities
IAS 19 position at 31 December 2018 (£bn)	**7.8**	**(7.4)**
Sensitivities (£bn change in assets/ liabilities):		
Interest rates: -1%[3]	+1.6	+1.4
Inflation: +1%[3]	+1.0	+0.8
Equities: -15%[4]	-0.1	-
'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 2019, the Group Volatility Cover (GVC) entered the second year of the three year agreement that commenced on 1 January 2018. We did not make any changes to the GVC through the 1 January 2019 renewal period.

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 and our significant underwriting actions, we have purchased some new reinsurance covers to provide additional protection for our short tail lines of business.

Firstly, we have reduced several of our retentions, details below:

- Our maximum Property risk retention has been reduced to £20m from a 2018 maximum of £50m
- Our non-core Catastrophe retentions have been reduced to a maximum of £25m from a 2018 maximum of £50m. This reduced maximum retention applies for all territories, excluding Europe and Canada
- We recover from the new protection if we do not recover the same loss from the GVC.

Secondly, we have purchased new 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, Construction & Engineering and Marine. Further details below:

- UK: Aggregate cover protects large losses between £3m and £10m. Cover attaches when the total of the losses in this band exceeds £58m. Limit of cover is £30m
- Scandinavia: Aggregate cover protects large losses between DKK 20m and DKK 100m and Catastrophe losses between DKK 50m and DKK 100m. Cover attaches when the total of the losses in these bands exceeds DKK 130m. Limit of cover is DKK 180m
- Canada: Aggregate cover protects large losses between C$2m and C$10m and catastrophe losses between C$5m and C$17.5m. Large loss and Catastrophe sections operate independently; cover attaches when large losses exceed C$50m or Catastrophe losses exceed C$25m. Limit of cover is C$65m which is shared across the two sections of cover.

There have been 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 2018 level of £1m and €1m respectively.

SEGMENTAL ANALYSIS

Management basis – 12 months ended 31 December 2017

	Scandinavia £m	Canada £m	UK & International £m	Central functions £m	**Group 2017 £m**
Net written premiums	**1,833**	**1,619**	**3,199**	**27**	**6,678**
Net earned premiums	1,836	1,591	3,196	(18)	6,605
Net incurred claims	(1,197)	(1,039)	(2,199)	85	(4,350)
Commissions	(59)	(212)	(638)	(2)	(911)
Operating expenses	(265)	(242)	(441)	(2)	(950)
Underwriting result ◊	**315**	**98**	**(82)**	**63**	**394**
Investment income	102	66	163	-	331
Investment expenses	(4)	(2)	(7)	-	(13)
Unwind of discount	(24)	(3)	(7)	-	(34)
Investment result ◊	**74**	**61**	**149**	**-**	**284**
Central expenses	-	-	-	(15)	(15)
Operating result ◊	**389**	**159**	**67**	**48**	**663**
Interest					(43)
Other non-operating charges					(172)
Profit before tax					**448**
Tax					(126)
Profit after tax					**322**
Non-controlling interest					(33)
Other equity costs[1]					(20)
Net attributable profit ◊					**269**
Underlying profit before tax ◊					**620**
Loss ratio (%)	*65.2*	*65.3*	*68.8*	-	65.9
Weather loss ratio	*0.1*	*3.7*	*4.8*	-	*2.6*
Large loss ratio	*5.7*	*7.7*	*15.5*	-	*10.8*
Current year attritional loss ratio ◊	*62.6*	*56.8*	*50.1*	-	*55.3*
Prior year effect on loss ratio	*(3.2)*	*(2.9)*	*(1.6)*	-	*(2.8)*
Commission ratio (%)	*3.2*	*13.4*	*20.0*	-	13.7
Expense ratio (%)	*14.5*	*15.2*	*13.8*	-	14.4
Combined ratio (%) ◊	***82.9***	***93.9***	***102.6***	**-**	**94.0**
Earned controllable expense ratio (%) ◊	23.1	18.6	20.8	-	21.0

Notes:

UK & International comprises the UK (and European branches), Ireland and the Middle East

[1] Preference dividends of £9m and coupons of £11m paid on 2017 issued restricted tier 1 securities

COMBINED RATIO DETAIL

Group

£m unless stated		Current year		Prior year		2018 total	Current year	Prior year	2017 total
Net written premiums	*1*	**6,426**	*7*	**44**	*13*	**6,470**	**6,659**	**19**	**6,678**
Net earned premiums	*2*	6,506	*8*	31	*14*	6,537	6,590	15	6,605
Net incurred claims	*3*	(4,630)	*9*	150	*15*	(4,480)	(4,523)	173	(4,350)
Commissions	*4*	(870)	*10*	(16)	*16*	(886)	(883)	(28)	(911)
Operating expenses	*5*	(921)	*11*	-	*17*	(921)	(947)	(3)	(950)
Underwriting result ◊	*6*	**85**	*12*	**165**	*18*	**250**	**237**	**157**	**394**
CY attritional claims	*19*	(3,630)					(3,642)		
Weather claims	*20*	(242)					(168)		
Large losses	*21*	(758)					(713)		
Net incurred claims	*22*	(4,630)					(4,523)		
Loss ratio (%)				*=15 / 14*	*23*	*68.5*			65.9
Weather loss ratio				*=20 / 2*	*24*	*3.7*			*2.6*
Large loss ratio				*=21 / 2*	*25*	*11.6*			*10.8*
Current year attritional loss ratio ◊				*=19 / 2*	*26*	*55.8*			*55.3*
Prior year effect on loss ratio				*=23 - 24 - 25 - 26*	*27*	*(2.6)*			*(2.8)*
Commission ratio (%)				*=16 / 14*	*28*	13.6			13.7
Expense ratio (%)				*=17 / 14*	*29*	14.1			14.4
Combined ratio (%)◊				*=23 + 28 + 29*	*30*	**96.2**			**94.0**

Scandinavia

£m unless stated	Current year	Prior year	2018 total	Current year	Prior year	2017 total
Net written premiums	**1,811**	**6**	**1,817**	**1,837**	**(4)**	**1,833**
Net earned premiums	1,802	5	1,807	1,837	(1)	1,836
Net incurred claims	(1,308)	51	(1,257)	(1,258)	61	(1,197)
Commissions	(64)	-	(64)	(59)	-	(59)
Operating expenses	(248)	-	(248)	(265)	-	(265)
Underwriting result	**182**	**56**	**238**	**255**	**60**	**315**
CY attritional claims	(1,141)			(1,151)		
Weather claims	(7)			(1)		
Large losses	(160)			(106)		
Net incurred claims	(1,308)			(1,258)		
Loss ratio (%)			69.6			65.2
Weather loss ratio			*0.4*			*0.1*
Large loss ratio			*8.9*			*5.7*
Current year attritional loss ratio			*63.3*			*62.6*
Prior year effect on loss ratio			*(3.0)*			*(3.2)*
Commission ratio (%)			3.5			3.2
Expense ratio (%)			13.7			14.5
Combined ratio (%)			**86.8**			**82.9**

COMBINED RATIO DETAIL

Canada

£m unless stated	Current Year	Prior year	2018 total	Current year	Prior year	2017 total
Net written premiums	**1,652**	**-**	**1,652**	**1,619**	**-**	**1,619**
Net earned premiums	1,607	-	1,607	1,591	-	1,591
Net incurred claims	(1,194)	46	(1,148)	(1,084)	45	(1,039)
Commissions	(211)	-	(211)	(212)	-	(212)
Operating expenses	(223)	-	(223)	(239)	(3)	(242)
Underwriting result	**(21)**	**46**	**25**	**56**	**42**	**98**
CY attritional claims	(934)			(904)		
Weather claims	(110)			(58)		
Large losses	(150)			(122)		
Net incurred claims	(1,194)			(1,084)		
Loss ratio (%)			71.5			65.3
Weather loss ratio			*6.8*			*3.7*
Large loss ratio			*9.4*			*7.7*
Current year attritional loss ratio			*58.1*			*56.8*
Prior year effect on loss ratio			*(2.8)*			*(2.9)*
Commission ratio (%)			13.1			13.4
Expense ratio (%)			13.9			15.2
Combined ratio (%)			**98.5**			**93.9**

Total UK&I

£m unless stated	Current year	Prior year	2018 total	Current year	Prior year	2017 total
Net written premiums	**3,061**	**39**	**3,100**	**3,175**	**24**	**3,199**
Net earned premiums	3,104	25	3,129	3,179	17	3,196
Net incurred claims	(2,173)	59	(2,114)	(2,238)	39	(2,199)
Commissions	(595)	(16)	(611)	(610)	(28)	(638)
Operating expenses	(447)	-	(447)	(441)	-	(441)
Underwriting result	**(111)**	**68**	**(43)**	**(110)**	**28**	**(82)**
CY attritional claims	(1,556)			(1,593)		
Weather claims	(176)			(153)		
Large losses	(441)			(492)		
Net incurred claims	(2,173)			(2,238)		
Loss ratio (%)			67.6			*68.8*
Weather loss ratio			*5.7*			*4.8*
Large loss ratio			*14.2*			*15.5*
Current year attritional loss ratio			*50.1*			*50.1*
Prior year effect on loss ratio			*(2.4)*			(1.6)
Commission ratio (%)			19.5			20.0
Expense ratio (%)			14.3			13.8
Combined ratio (%)			**101.4**			**102.6**

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 levels and undergo rigorous internal quality assurance. Occasionally management may also report additional or adjusted APMs when circumstance requires to further enhance understanding. In 2018 additional proforma profitability measures have been included to show the result of our ongoing business, given the significant portfolio exits undertaken in the UK business and new reinsurance programmes.

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 ◊*

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 underlying loss 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
Claims Frequency	Average number of claims per policy over the year.			
Claims Handling Expenses	The administrative cost of processing a claim (such as salary costs, costs of running claims centres, allocated share of the costs of head office units) which are separate to the cost of settling the claim itself with the policyholder.			
Claims Ratio (Loss Ratio)	Percentage of net earned premiums that is paid out in claims and claims handling expenses.	◊	1	V
Claims Reserve (Provision for Losses and Loss Adjustment Expenses)	A provision established to cover the estimated cost of claims payments and claims handling expenses that are still to be settled and incurred in respect of insurance cover provided to policyholders up to the reporting date.			
Claims Severity	Average cost of claims incurred over the period.			
Combined Operating Ratio (COR)	A measure of underwriting performance calculated on an 'earned' basis as follows: 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	N/A
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	N/A
Current Year Underwriting Result	The profit or loss earned from business for which insurance cover has been provided during the current financial period.	◊	1	Q
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.			

<table>
<tr><th>Term</th><th colspan="2">Definition</th><th>APM</th><th colspan="2">Reconciliation</th></tr>
<tr><td>Gross Written Premium (GWP)</td><td colspan="2">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.</td><td></td><td></td><td></td></tr>
<tr><td>IBNR (Incurred But Not Yet Reported)</td><td colspan="2">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.</td><td></td><td></td><td></td></tr>
<tr><td>Interest Costs</td><td colspan="2">Interest costs represent the cost of Group debt excluding any debt buy back costs.</td><td>◊</td><td>1</td><td>O</td></tr>
<tr><td>Investment Result</td><td colspan="2">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.</td><td>◊</td><td>1</td><td>AA</td></tr>
<tr><td>Large Losses</td><td colspan="2">Single claim or all claims arising from a single loss event with a net cost of £0.5m or higher.</td><td></td><td></td><td></td></tr>
<tr><td>Large Loss Ratio</td><td colspan="2">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.</td><td>◊</td><td>1</td><td>T</td></tr>
<tr><td>Net Asset Value (NAV) per Share</td><td colspan="2">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.</td><td>◊</td><td>3</td><td>E</td></tr>
<tr><td>Net Earned Premium (NEP)</td><td colspan="2">The proportion of premium written, net of the cost of associated reinsurance, which represents the consideration charged to policyholders for providing insurance cover during the reporting period.</td><td></td><td></td><td></td></tr>
<tr><td>Net Incurred Claims (NIC)</td><td colspan="2">The total claims cost incurred in the period less any share that is borne by reinsurers. It includes both claims payments and movements in claims reserves and claims handling expenses in the period.</td><td></td><td></td><td></td></tr>
<tr><td>Net Written Premium (NWP)</td><td colspan="2">Premium written or processed in the period, irrespective of whether it has been paid, less the amount shared with reinsurers.</td><td></td><td></td><td></td></tr>
<tr><td rowspan="10">Non-Operating Charges</td><td colspan="2">Non-operating charges represent items that are excluded to arrive at the underlying profit after tax measure.</td><td>◊</td><td>1</td><td>AD</td></tr>
<tr><td>Item</td><td>Reason for classification</td><td rowspan="9">◊</td><td rowspan="9">1</td><td rowspan="9">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>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>Regulatory costs in respect of customer redress</td><td>To allow assessment of the performance of ongoing business activities</td></tr>
<tr><td>Reorganisation</td><td>To allow assessment of the performance of ongoing business activities</td></tr>
<tr><td>Impairment of intangible assets</td><td>Where the impairment arises from restructuring activities</td></tr>
<tr><td>Debt buy back costs</td><td>To allow meaningful assessment of ongoing finance costs</td></tr>
</table>

Term	Definition	APM	Reconciliation	
Operating Profit	Operating profit is profit before tax less non-operating charges.	◊	1	AC
Payout Ratio	Ordinary dividends expressed as a percentage of underlying profit after tax attributable to ordinary shareholders.			
Policies in Force	The number of active insurance policies for which Group is providing cover.			
Prior Year Underwriting Result	Updates to premium, claims, commission and expense estimates relating to prior years.	◊	1	P
Proforma	Adjusted profitability measures to enhance understanding of the reported result and of future potential performance. Proforma profitability metrics show; - The impact of the new regional reinsurance programmes - The results for our ongoing business given the significant portfolio exits undertaken in the UK business Regional results after allocation of group volatility cover reinsurance premiums and claims recoveries.	◊	7	
Property and Casualty (P&C) (Non-Life Insurance or General Insurance)	Property insurance covers loss or damage through fire, theft, floods, storms and other specified risks. Casualty insurance primarily covers losses arising from accidents that cause injury to other people or damage to the property of others.			
Prudential Regulation Authority (PRA)	The regulatory authority with responsibility for the prudential regulation and supervision of the UK financial services industry.			
Pull to par	The movement of a bond's price toward its face value as it approaches its maturity date.			
Rate	The price of a unit of insurance based on a standard risk for one year. Actual premium charged to the policyholder may differ from the rate due to individual risk characteristics and marketing discounts.			
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	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.			
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	A measure of underwriting performance calculated as net earned premium less net claims and underwriting and policy acquisition costs.	◊	1	Z
Underlying Tax Rate	The underlying Core Group tax rate mainly comprising the local statutory tax rates in the Group's territories applied to underlying regional profits (operating profits less interest costs).	◊	6	A

Term	Definition	APM	Reconciliation	
Underlying Profit after Tax	This provides a key measure of shareholder value and one that informs overall valuation in the insurance sector. It takes profit after tax, excluding the proportion that is attributable to non-controlling interests, preference shareholders and Tier 1 note holders and adds back non-operating charges (reasons for exclusion above) before adjusting for the tax difference between effective and underlying rate.	◊*	2	B
Underlying Return on Tangible Equity	A key measure of shareholder value and one that informs overall valuation in the insurance sector. 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)	A key measure of the underlying earnings power of the group as it excludes shorter-term and temporary changes, such as restructuring costs. Underlying earnings per share is calculated as 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 with a net cost of £0.5m or higher 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 2018

£'m	IFRS		Underwriting result	Investment result	Central costs	Operating result	Non-operating charges	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 / (losses)	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)	O					(25)	
Finance costs	(25)						(25)	
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%

1. IFRS reconciliation to management P&L
For the 12 months ended 31 December 2017

£'m	IFRS		Underwriting result	Investment result	Central costs	Operating result	Non-operating charges	Profit before tax
			Management					
Income								
Gross written premiums	7,599		7,599					
Less: reinsurance premiums	(921)		(921)					
Net written premiums	6,678		6,678					
Change in the gross provision for unearned premiums	(16)		(16)					
Less: change in provision for unearned reinsurance premiums	(57)		(57)					
Change in provision for unearned premiums	(73)		(73)					
Net earned premiums, analysed as	6,605	A	6,605					
Current year		B	6,590					
Prior year		C	15					
			6,605					
Investment income	331	D		331				
Realised gains on investments	19						19	
Gains / (losses) on forex derivatives	(5)						(5)	
Unrealised gains / (losses)	1						1	
Impairments	4						4	
Net investment return	350							
Other insurance income	146	E	146					
Other non-insurance income	4				4			
Other operating income	150							
Total income	7,105							
Expenses								
Gross claims incurred	(5,136)		(5,136)					
Less: claims recoveries from reinsurers	786		786					
Net claims, analysed as	(4,350)	F	(4,350)					
Attritional		G	(3,642)					
Weather		H	(168)					
Large		I	(713)					
Prior year		J	173					
			(4,350)					
Earned CY commission	(883)	K	(883)					
Earned PY commission	(28)	L	(28)					
Earned CY operating expenses	(1,093)	M	(1,093)					
Earned PY operating expenses	(3)	N	(3)					
Underwriting and policy acquisition costs	(2,007)		(2,007)					
Unwind of discount	(34)			(34)				
Investment expenses	(13)			(13)				
Non-insurance expenses	(3)				(3)			
Central expenses	(17)				(17)			
Amortisation of intangible assets	(15)						(15)	
Pension net interest and administration costs	(7)						(7)	
Reorganisation costs	(155)						(155)	
Foreign exchange losses	(1)						(1)	
Impairment of intangibles	(23)						(23)	
Other operating expenses	(234)							
	(6,625)							
Interest costs	(43)	O					(43)	
Debt buy back costs	(59)						(59)	
Finance costs	(102)						(102)	
Acquisitions and disposals	69						69	
Net share of profit after tax of associates	1				1			
Profit before tax	448		394	284	(15)	663	(215)	448
Income tax expense	(126)		Z	AA	AB	AC	AD	
Profit for the year	322							
	C+J+L+N	P	157	PY Underwriting				
	Z - P	Q	237	CY Underwriting				
			394					
Attritional loss ratio	G/B	R	55.3%					
Weather loss ratio	H/B	S	2.6%					
Large loss ratio	I/B	T	10.8%					
Prior year effect on loss ratio	V-R-S-T	U	(2.8%)					
Loss ratio	F/A	V	65.9%					
Commission ratio	(K+L)/A	W	13.7%					
Expense ratio	(E+M+N)/A	X	14.4%					
Combined operating ratio	V+W+X	Y	94.0%					

2. Metric calculations

			2018 £m	2017 £m
		Profit after tax	372	322
		Less: non-controlling interest	(23)	(33)
Note 21		Less: coupon on 2017 issued restricted tier 1 instrument	(14)	(11)
Note 21		Less: preference dividend	(9)	(9)
	A	**Profit attributable to ordinary shareholders**	**326**	**269**
APM Rec 1		Add: non-operating charges	37	215
		Add: non-controlling interest share of non-operating charges	-	13
APM Rec 1		Less: interest costs	(25)	(43)
APM Rec 6		Add: underlying tax differential	12	(10)
	B	**Underlying profit after tax attributable to ordinary shareholders**	**350**	**444**
		Opening shareholders' funds	**3,653**	**3,715**
		Less: preference share capital	(125)	(125)
	C	**Opening ordinary shareholders' funds**	**3,528**	**3,590**
Note 23		Less: opening goodwill and intangibles	(763)	(728)
	D	**Opening tangible ordinary shareholders' funds**	**2,765**	**2,862**
	E	**Weighted average no. share issue during the period (un-diluted)**	**1,026**	**1,021**
		Return on equity		
A/C	**F**	Reported	**9.2%**	**7.5%**
B/C	**G**	Underlying	**9.9%**	**12.4%**
		Return on tangible equity		
A/D	**H**	Reported	**11.8%**	**9.4%**
B/D	**I**	Underlying	**12.6%**	**15.5%**
		Earnings per share		
A/E	**J**	Basic earnings per share	**31.8**	**26.3**
B/E	**K**	Underlying earnings per share	**34.1**	**43.5**

3. Balance sheet reconciliations

			2018 £m	2017 £m
	A	Closing shareholders' funds	**3,786**	**3,653**
		Less: preference share capital	(125)	(125)
	B	**Ordinary shareholders funds**	**3,661**	**3,528**
Note 23		Less: closing goodwill and intangibles	(794)	(763)
	C	**Tangible net asset value**	**2,867**	**2,765**
	D	**Shares in issue at the period end**	**1,027**	**1,023**
B/D	**E**	**Net asset value per share**	**357**	**345**
C/D	**F**	**Tangible net asset value per share**	**279**	**270**

4. Net written premium movement and constant exchange

			2018 £m	2017 £m
Note 9	**A**	**Net written premiums**	**6,470**	**6,678**
		Year-on-year movement	(208)	397
		Comprised of:		
		Volume change including portfolio actions and standard reinsurance	(153)	(25)
		Rate increases	238	163
	B	Additional reinsurance changes	(178)	-
	C	**Movement at constant exchange**	**(93)**	**138**
	D	Foreign exchange	(115)	259
		Total movement	**(208)**	**397**
C/(2017A-D)	**E**	**% movement at constant exchange**	**(1)%**	**2%**
(C-B)/(2017A-D)	**F**	**% movement at constant exchange less reinsurance**	**1%**	

5. Controllable expenses

			2018 £m	2017 £m
		Underwriting and policy admin costs	**(1,945)**	**(2,007)**
APM Rec 1		Less: commission	886	911
		Less: non controllable premium related costs eg levies	139	130
		Add: claims expenses within net claims	(397)	(406)
		Add: other	(26)	(23)
	A	**Written controllable expense base**	**(1,343)**	**(1,395)**
		Less: controllable deferred acquisition costs	11	8
	B	**Earned controllable expense base**	**(1,332)**	**(1,387)**
	C	Add: investment expenses	(14)	(13)
	D	Add: central costs	(9)	(17)
A+C+D	**E**	**Total written controllable expense base**	**(1,366)**	**(1,425)**
B+C+D	**F**	**Total earned controllable expense base**	**(1,355)**	**(1,417)**
	G	Net written premiums	6,470	6,678
	H	Net earned premiums	6,537	6,605
A/C	**I**	**Written controllable expense ratio**	**20.8%**	**20.9%**
E/C	**J**	**Total written controllable expense ratio**	**21.1%**	**21.3%**
B/D	**K**	**Earned controllable expense ratio**	**20.4%**	**21.0%**
F/D	**L**	**Total earned controllable expense ratio**	**20.8%**	**21.5%**

6. Underlying tax rate

			2018	2017
			%	**%**
		Effective tax rate (ETR)	**23**	**28**
		Less tax effect of:		
		Withholding tax on intercompany dividend	0	(5)
		Unrecognised tax losses	(2)	(1)
		Underlying versus IFRS regional profit mix	0	(1)
		One off impact of Swedish law change	(1)	0
		Other	0	1
	A	**Underlying tax rate**	**20**	**22**
			£m	**£m**
APM Rec 1		Operating profit	**517**	663
APM Rec 1		Less interest costs	(25)	(43)
	B	**Underlying profit before tax**	492	620
AxB	**C**	**Underlying tax**	**(96)**	**(136)**
		Tax	(108)	(126)
	D	**Underlying tax differential**	**12**	**(10)**

7. APM proformas

Occasionally management report additional or adjusted APMs when circumstance requires to further enhance understanding of reported results and of future performance potential. Additional proforma profitability metrics provided show:

- The impact of the new 2019 regional reinsurance programmes
- The results for our ongoing business given the portfolio exits undertaken in the UK business.

UK proforma for exits

The UK proforma adjusts the reported result for the estimated impact of the strategic portfolio exits (£195m NEP) primarily including London Market portfolios and a number of UK MGA schemes and the impact of new reinsurance (assumed to be broadly neutral in the UK when exit adjustments are taken into account).

			UK 2018	UK & International 2018
Reported				
	A	NEP	2,629	3,129
	B	Underwriting result	(106)	(43)
(B/A)-1		**COR**	**104.0%**	**101.4%**
	C	**Operating result**	**29**	**105**
UK exits				
	D	Exited NEP	(195)	(195)
	E	Underwriting impact	120	120
Exits proforma				
A+D	**F**	NEP	2,434	2,934
B+E	**G**	Underwriting result	14	77
(G/F)-1		**COR**	**99.4%**	**97.4%**
C+E		**Operating result**	**149**	**225**

Canada proforma for GVC and new reinsurance

Proforma adjusts Canadian reported result to include share of GVC reinsurance premiums and claims recoveries and the impact of new reinsurance programmes.

			2018
Reported			
	A	NEP	1,607
	B	**Underwriting result**	**25**
(B/A)-1		**COR**	**98.5%**
	C	**Operating result**	**84**
GVC allocation			
	D	NEP allocation	(11)
		Recoveries allocation	25
	E	Underwriting impact	14
GVC proforma			
A+D	**F**	NEP	1,596
B+E	**G**	**Underwriting result**	**39**
(G/F)-1		**COR**	**97.6%**
		Operating result	**98**
New reinsurance			
	H	Incremental cost	(1)
	J	Underwriting impact	14
GVC and new reinsurance proforma			
A+D+H	**K**	NEP	1,595
B+E+J	**L**	**Underwriting result**	**53**
(L/K)-1		**COR**	**96.7%**
C+E+J		**Operating result**	**112**

Group proforma for UK exits and new reinsurance

The Group reported result adjusted for the estimated impact of UK exits and new regional reinsurance programmes.

			2018	2017	2017 CFX	2018 v CFX
			S		T	(S-T)/T
Group reported						
	A	NEP	6,537	6,605	6,491	
	B	**Underwriting result**	**250**	**394**	**377**	**(33%)**
(B/A)-1		**COR**	**96.2%**	**94.0%**	**94.2%**	
	C	**Operating result**	**517**	**663**	**644**	**(19%)**
	D	Underlying profit after tax	350	444	430	
	E	Weighted average shares	1,026	1,021	1,021	
D/E		**Underlying EPS**	**34.1p**	**43.5p**	**42.1p**	**(19%)**
		UK exits				
	F	Exited NEP	(195)			
	G	Underwriting impact	82	(includes £(37)m of forgone GVC recoveries for exits)		
	H	Tax thereon (10%)	(8)			
		New reinsurance				
	J	Incremental cost	(12)	(includes £(11)m for Scandinavia)		
	K	Underwriting impact	12	(includes £(2)m for Scandinavia)		
	L	Tax thereon (22% and 27%)	(4)			

Group exit and new reinsurance proforma

A+F+J	**M**	NEP	6,330
B+G+K	**N**	Underwriting result	344
(N/M)-1		**COR**	**94.6%**
C+G+K	**P**	**Operating result**	**611**
D+G+H+K+L	**Q**	Underlying profit after tax	432
	R	Weighted average shares	1,026
Q/R		**Underlying EPS**	**42.1p**

Note: the impact of new UK reinsurance covers are assumed to be broadly neutral when exits taken into account.

REPORTING AND DIVIDEND TIMETABLE

Reporting:

Q1 2019 trading update	9 May 2019

Dividend:

Final ordinary dividend for the year ended 31 December 2018:

Announcement date	28 February 2019
Ex-dividend date	7 March 2019
Record date	8 March 2019
Dividend payment date	17 May 2019

1st preference dividend:

Announcement date	28 February 2019
Ex-dividend date	7 March 2019
Record date	8 March 2019
Dividend payment date	1 April 2019

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 first 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 28 February 2019. 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 press release 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 press release 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 2018

	Note	2018 £m	2017 £m
Income			
Gross written premiums		**7,467**	7,599
Less: reinsurance premiums		**(997)**	(921)
Net written premiums	**7**	**6,470**	6,678
Change in gross provision for unearned premiums		**61**	(16)
Less: change in provision for unearned reinsurance premiums		**6**	(57)
Change in provision for unearned premiums		**67**	(73)
Net earned premiums		**6,537**	6,605
Net investment return		**343**	350
Other operating income		**138**	150
Total income		**7,018**	7,105
Expenses			
Gross claims incurred		**(5,023)**	(5,136)
Less: claims recoveries from reinsurers		**543**	786
Net claims		**(4,480)**	(4,350)
Underwriting and policy acquisition costs		**(1,945)**	(2,007)
Unwind of discount		**(33)**	(34)
Other operating expenses, reorganisation costs and impairments		**(54)**	(234)
		(6,512)	(6,625)
Finance costs		**(25)**	(102)
(Loss)/profit on disposal of business and realised (losses)/gains on held for sale	**5**	**(2)**	69
Net share of profit after tax of associates		**1**	1
Profit before tax	**7**	**480**	448
Income tax expense	**8**	**(108)**	(126)
Profit for the year		**372**	322
Attributable to:			
Equity holders of the Parent Company		**349**	289
Non-controlling interests		**23**	33
		372	322
Earnings per share on profit attributable to the ordinary shareholders of the Parent Company			
Basic	**9**	**31.8p**	26.3p
Diluted	**9**	**31.6p**	26.1p
Ordinary dividends paid and proposed for the year			
Interim dividend paid	**10**	**7.3p**	6.6p
Final dividend proposed	**10**	**13.7p**	13.0p

The attached notes on pages 50 to 89 form an integral part of these consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
STATUTORY BASIS
for the year ended 31 December 2018

	2018 £m	2017 £m
Profit for the year	**372**	322
Items that may be reclassified to the income statement:		
Exchange losses net of tax on translation of foreign operations	**(13)**	(36)
Fair value losses on available for sale financial assets net of tax	**(149)**	(197)
	(162)	(233)
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	**161**	44
Movement in property revaluation surplus net of tax	**2**	2
	163	46
Total other comprehensive income/(expense) for the year	**1**	(187)
Total comprehensive income for the year	**373**	135
Attributable to:		
Equity holders of the Parent Company	**343**	117
Non-controlling interests	**30**	18
	373	135

The attached notes on pages 50 to 89 form an integral part of these consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY STATUTORY BASIS

for the year ended 31 December 2018

	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 2017	1,020	1,080	(1)	125	496	389	78	528	3,715	-	132	3,847
Total comprehensive income												
Profit for the year	-	-	-	-	-	-	-	289	289	-	33	322
Other comprehensive (expense)/income	-	-	-	-	(192)	-	(24)	44	(172)	-	(15)	(187)
	-	-	-	-	(192)	-	(24)	333	117	-	18	135
Transactions with owners of the Group												
Contribution and distribution												
Dividends (note 10)	-	-	-	-	-	-	-	(200)	(200)	-	(10)	(210)
Shares issued for cash (note 17)	1	3	-	-	-	-	-	-	4	-	-	4
Share based payments (note 17)	2	-	-	-	-	-	-	14	16	-	-	16
Issue of Tier 1 notes (note 18)	-	-	-	-	-	-	-	-	-	297	-	297
Other reserve transfer	-	-	-	-	(7)	-	-	7	-	-	-	-
	3	3	-	-	(7)	-	-	(179)	(180)	297	(10)	107
Changes in shareholders' interests in subsidiaries	-	-	-	-	-	-	-	1	1	-	12	13
Total transactions with owners of the Group	3	3	-	-	(7)	-	-	(178)	(179)	297	2	120
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 31 December 2018	**1,027**	**1,087**	**(1)**	**125**	**152**	**389**	**36**	**971**	**3,786**	**297**	**168**	**4,251**

The attached notes on pages 50 to 89 form an integral part of these consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
STATUTORY BASIS
as at 31 December 2018

	Note	2018 £m	2017 £m
Assets			
Goodwill and other intangible assets	11	**792**	763
Property and equipment		**90**	104
Investment property		**310**	308
Investments in associates		**13**	13
Financial assets	12	**11,458**	11,643
Total investments		**11,781**	11,964
Reinsurers' share of insurance contract liabilities	14	**2,271**	2,252
Insurance and reinsurance debtors		**2,954**	2,923
Deferred tax assets	15	**234**	276
Current tax assets	15	**71**	43
Other debtors and other assets		**673**	559
Other assets		**978**	878
Cash and cash equivalents	16	**788**	1,048
		19,654	19,932
Assets of operations classified as held for sale	5	**639**	668
Total assets		**20,293**	20,600
Equity and liabilities			
Equity			
Shareholders' equity		**3,786**	3,653
Tier 1 notes	18	**297**	297
Non-controlling interests		**168**	152
Total equity		**4,251**	4,102
Liabilities			
Loan capital	19	**441**	441
Insurance contract liabilities	20	**12,712**	12,793
Insurance and reinsurance liabilities	20	**928**	934
Borrowings		**119**	123
Deferred tax liabilities	15	**79**	56
Current tax liabilities	15	**14**	24
Provisions		**169**	407
Other liabilities		**944**	1,052
Provisions and other liabilities		**1,206**	1,539
		15,406	15,830
Liabilities of operations classified as held for sale	5	**636**	668
Total liabilities		**16,042**	16,498
Total equity and liabilities		**20,293**	20,600

The attached notes on pages 50 to 89 form an integral part of these consolidated financial statements.

The financial statements were approved on 27 February 2019 by the Board of Directors and are signed on its behalf by:

Scott Egan
Group Chief Financial Officer
(appointed as CEO, UK & International on 5 February 2019)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
STATUTORY BASIS
for the year ended 31 December 2018

	Note	2018 £m	2017 £m
Cash flows from operating activities			
Cash generated from operating activities	**22**	**269**	469
Tax paid		**(80)**	(104)
Net cash flows from operating activities		**189**	365
Cash flows from investing activities			
Proceeds from sales or maturities of:			
Financial assets		**2,605**	3,030
Investment property		**25**	28
Property and equipment		**28**	-
Sale of subsidiaries (net of cash disposed of)		**11**	15
Purchase of:			
Financial assets		**(2,665)**	(2,406)
Investment property		**(19)**	(2)
Property and equipment		**(22)**	(16)
Intangible assets		**(123)**	(131)
Purchase of subsidiaries (net of cash acquired)		**(17)**	-
Cash element of reinsurance premium on UK Legacy assets		**-**	(96)
Net cash flows from investing activities		**(177)**	422
Cash flows from financing activities			
Proceeds from issue of share capital		**5**	4
Proceeds from issue of Tier 1 notes	**18**	**-**	297
Dividends paid to ordinary shareholders		**(208)**	(180)
Coupon payment on Tier 1 notes		**(14)**	(11)
Dividends paid to preference shareholders		**(9)**	(9)
Dividends paid to non-controlling interests		**(14)**	(10)
Redemption of debt instruments		**-**	(636)
Net movement in other borrowings		**(12)**	(136)
Interest paid		**(25)**	(133)
Net cash flows from financing activities		**(277)**	(814)
Net decrease in cash and cash equivalents		**(265)**	(27)
Cash and cash equivalents at the beginning of the year		**1,049**	1,087
Effect of changes in foreign exchange on cash and cash equivalents		**(3)**	(11)
Cash and cash equivalents at the end of the year	**16**	**781**	1,049

The attached notes on pages 50 to 89 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 2018 Annual Report and Accounts (see note 23).

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 loan capital 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).

Estimation techniques and assumptions are presented in the relevant note in order to provide context to the figures presented. The most significant estimates are those used in determining insurance contract liabilities (note 20), deferred tax (note 15) and defined benefit pension scheme liabilities (note 21). There are no significant judgements not related to accounting estimates.

2. ADOPTION OF NEW AND REVISED STANDARDS

IFRS 4 'Insurance Contracts'
During the year the Group has taken advantage of an election under IFRS 4 that permits an insurer which meets certain conditions to temporarily be exempt from adopting IFRS 9 'Financial Instruments" that would have otherwise have become effective from 1 January 2018 until 1 January 2021 (it is anticipated that this date will be put back a further year until 1 January 2022 to coincide with the new expected implementation date for IFRS 17 'Insurance Contracts'). This will enable accounting policy choices to consider the interrelationships of IFRS 17 'Insurance Contracts' and 9 particularly with regards to asset and liability management.

IFRS 15 'Revenue Recognition'
IFRS 15 'Revenue Recognition' became effective from 1 January 2018 and does not apply to insurance and financial instrument income. The Group completed its detailed review of the application of IFRS 15 on its income recognised from the performance of other services for customers. Existing policies for the recognition and measurement of such income are already compliant with the requirements of IFRS 15 and therefore no adjustment was necessary when applying the standard.

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 2018, none of which have had a significant impact on the consolidated financial statements.

3. NEW ACCOUNTING STANDARDS, INTERPRETATIONS AND AMENDMENTS

IFRS 17 'Insurance Contracts'
The International Accounting Standards Board (IASB) issued IFRS 17 'Insurance Contracts' in May 2017 to replace IFRS 4 'Insurance Contracts'. The IASB deferred the implementation date of IFRS 17 by one year on 14 November 2018 to annual reporting periods beginning, at the latest, on or after 1 January 2022. It is anticipated that the IASB will issue a new Exposure Draft of the standard in the summer of 2019.

Draft legislation has been laid before Parliament to ensure that IFRS as endorsed by the EU at the date of the UK leaving the EU will be adopted for use in the UK as well as providing the Secretary of State with the power to adopt and endorse IFRS for use in the UK. It is expected that this power will be delegated to a UK IFRS Endorsement Board. In the event that IFRS 17 has not been endorsed by the EU by the time the UK leaves the EU, including any transitional period or arrangements that may be agreed, then the UK IFRS Endorsement Board will have responsibility for its endorsement.

The Group's programme of implementation activity is progressing in line with plans which include consideration of the impact of the one year deferral. The activities completed in 2018 include making decisions on accounting policy in key areas supported by financial impact analysis, the design of finance systems and process change and drafting revised pro-forma financial statements. Detailed build and testing of new systems and processes will take place during 2019 and early 2020 moving into detailed parallel run testing of reporting during the latter part of 2020 and into 2021 to assure reporting compliance by 1 January 2022.

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 defer applying IFRS 9 'Financial Instruments' until 1 January 2021. Further information can be found in note 12.

IFRS 16 'Leases'
IFRS 16 replaces the existing standard IAS 17 'Leases' with effect from 1 January 2019. The Group has assessed the estimated impact that initial application of IFRS 16 will have on its consolidated financial statements, as described below.

IFRS 16 introduces a single, on balance sheet lease accounting model for lessees. A lessee recognises an asset representing its right to use the underlying leased asset and a liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items, which the Group intends to utilise.

The Group will recognise new assets and liabilities mainly relating to:

- Real estate operating leases; and
- Mainframe and server elements of technology contracts.

The nature of expenses on these areas changes from 1 January 2019 when the Group will recognise a depreciation charge for right-of-use assets and an interest expense on lease liabilities. Currently, the Group recognises the applicable expenses as they fall due, and assets and liabilities only to the extent that there was a timing difference between the recognition of the expense and its actual payment.

The Group will apply IFRS 16 on 1 January 2019 using the standard's second modified retrospective approach which means that the lease liability on transition will be matched by an equal and opposite right of use asset resulting in a nil impact on opening equity which will be applied using the exemption not to present the prior reporting period. This means that, based on the information currently available, the Group estimates that it will recognise additional lease liabilities and right-of-use assets on implementation of c£280m. The impact on the Income Statement in future years is expected to be immaterial.

Other standards
The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements over the following twelve months:

- Annual improvement to IFRSs 2015-2017 Cycle –Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23;
- IFRIC 22 Foreign Currency Transactions and Advance Consideration;
- IFRIC 23 Uncertainty over Income Tax Treatments;
- Amendments to IAS 19 Employee benefits on plan amendments, curtailment or settlement.

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.

4. RISK MANAGEMENT (CONTINUED)

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 has a Group Reserving Committee which 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 2018, 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.

4. RISK MANAGEMENT (CONTINUED)

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 removed from the Group's authorised list of approved reinsurers unless the Group's internal review discovers exceptional circumstances in favour of the reinsurer. Collateral is taken, where appropriate, to mitigate exposures to acceptable levels. At 31 December 2018 the extent of collateral held by the Group against reinsurers' share of insurance contract liabilities was **£577m** (2017: £585m), which in the event of a default would be called and recognised on the balance sheet.

The Group's use of reinsurance is sufficiently diversified that it is not concentrated on a single reinsurer, or any single reinsurance contract. The Group regularly monitors its aggregate exposures by reinsurer group against predetermined reinsurer group limits, in accordance with the methodology agreed by the BRC. The Group's largest reinsurance exposures to active reinsurance groups, excluding Enstar which is fully collateralised (see note 5), are Berkshire Hathaway, Lloyd's of London and Talanx. At 31 December 2018 the reinsurance asset recoverable from these groups does not exceed **3.9%** (2017: 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 **6.5%** (2017: 6.4%) 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 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.

4. RISK MANAGEMENT (CONTINUED)

As at 31 December 2017

	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	5,358	2,170	2,305	655	171	1	10,660	-	10,660
Of which would qualify for SPPI under IFRS 9[1]	5,358	2,154	2,199	636	95	-	10,442	-	10,442
Loans and receivables[2]	81	-	5	104	4	25	219	-	219
Reinsurers' share of insurance contract liabilities	-	617	1,574	605	45	41	2,882	636	2,246
Insurance and reinsurance debtors[3]	75	32	971	74	53	1,622	2,827	16	2,811
Derivative assets	-	6	16	38	-	10	70	-	70
Other debtors	-	-	-	-	-	189	189	11	178
Cash and cash equivalents	317	315	378	14	8	21	1,053	5	1,048

[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%** (2017: 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 as at 2018, excluding those assets that have been classified as held for sale.

As at 31 December 2018

		Financial assets that are past due but not impaired						
	Neither past due nor impaired £m	**Up to three months £m**	**Three to six months £m**	**Six months to one year £m**	**Greater than one year £m**	**Financial assets that have been impaired £m**	**Carrying value in the statement of financial position £m**	**Impairment losses charged/ (reversed) to the income statement during the year £m**
Debt securities	**10,470**	**-**	**-**	**-**	**-**	**-**	**10,470**	**-**
Loans and receivables	**249**	**-**	**-**	**-**	**-**	**-**	**249**	**-**
Reinsurers' share of insurance contract liabilities	**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	**788**	**-**	**-**	**-**	**-**	**-**	**788**	**-**

4. RISK MANAGEMENT (CONTINUED)

As at 31 December 2017

	Neither past due nor impaired	Financial assets that are past due but not 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
	£m	£m	£m	£m	£m	£m	£m	£m
Debt securities	10,660	-	-	-	-	-	10,660	-
Loans and receivables	219	-	-	-	-	-	219	(4)
Reinsurers' share of insurance contract liabilities	2,246	-	-	-	-	6	2,252	-
Insurance and reinsurance debtors	2,811	51	22	24	13	2	2,923	4
Derivative assets	70	-	-	-	-	-	70	-
Other debtors	178	11	1	-	1	-	191	-
Cash and cash equivalents	1,048	-	-	-	-	-	1,048	-

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 2018 the Group held investments classified as equity securities of **£739m** (2017: £764m). 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 **£203m** (2017: £242m) 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 **£30m** (2017: £36m) 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 **£47m** (2017: £46m) in the income statement and **£3m** (2017: £5m) 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 2018, 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	
	2018	2017	**2018**	2017
	£m	£m	**£m**	£m
Increase in interest rate markets:				
Impact on fixed income securities and cash of an increase in interest rates of 100bps	**20**	18	**(380)**	(412)

4. RISK MANAGEMENT (CONTINUED)

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 2019 and 1 January 2018 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 Investment Committee. 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 2018, 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 2018	**2,437**	**401**	**658**	**226**	**387**	**4,109**
Shareholders' equity at 31 December 2017	2,607	414	506	201	222	3,950

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 2018	**(36)**	**45**	**(60)**	**73**	**(21)**	**25**
Movement in shareholders' equity at 31 December 2017	(38)	46	(46)	56	(18)	22

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.

4. RISK MANAGEMENT (CONTINUED)

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 2018

	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	-	-	-	-	-	-	7	7	6
Guaranteed subordinated notes due 2045	-	-	-	-	-	400	-	400	396
Guaranteed subordinated step-up notes due 2039	39	-	-	-	-	-	-	39	39
Provisions for losses and loss adjustment expenses	4,334	1,813	1,158	815	629	1,402	1,605	11,756	9,468
Direct insurance creditors	118	2	-	-	-	-	-	120	120
Reinsurance creditors	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	5,245	2,013	1,220	815	629	1,811	1,648	13,381	11,088
Interest on perpetual bonds and notes	23	21	21	21	21	40	1	148	

As at 31 December 2017

	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	-	-	-	-	-	-	7	7	6
Guaranteed subordinated notes due 2045	-	-	-	-	-	400	-	400	396
Guaranteed subordinated step-up notes due 2039	-	39	-	-	-	-	-	39	39
Provisions for losses and loss adjustment expenses	3,913	1,645	1,110	799	584	1,379	1,872	11,302	9,477
Direct insurance creditors	111	2	-	-	-	-	-	113	113
Reinsurance creditors	506	239	76	-	-	-	-	821	821
Borrowings	123	-	-	-	-	-	-	123	123
Deposits received from reinsurers	35	-	-	-	-	-	-	35	35
Derivative liabilities	7	27	-	11	-	5	38	88	88
Total	4,695	1,952	1,186	810	584	1,784	1,917	12,928	11,098
Interest on perpetual bonds and notes	25	23	21	21	21	60	1	172	

The maturity analysis above is presented on an undiscounted basis including held for sale liabilities. The carrying values in the statement of financial position are discounted where appropriate in accordance with Group accounting policy.

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 mortality 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.

SIGNIFICANT TRANSACTIONS AND EVENTS

5. HELD FOR SALE DISPOSAL GROUPS AND BUSINESS DISPOSALS

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

	2018			2017
	Noble	**UK Legacy**	**Total**	UK Legacy
	£m	**£m**	**£m**	£m
Assets classified as held for sale				
Goodwill	2	**-**	**2**	-
Reinsurers' share of insurance contract liabilities	-	**604**	**604**	636
Insurance and reinsurance debtors	-	**13**	**13**	16
Other debtors and other assets	-	**15**	**15**	11
Cash and cash equivalents	1	**4**	**5**	5
Assets of operations classified as held for sale	3	**636**	**639**	668
Liabilities directly associated with assets classified as held for sale				
Insurance contract liabilities	-	**604**	**604**	636
Insurance and reinsurance liabilities	-	**3**	**3**	2
Provisions and other liabilities	-	**29**	**29**	30
Liabilities of operations classified as held for sale	-	**636**	**636**	668
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 takes the form of a reinsurance agreement, effective from 31 December 2016, which substantially effects economic transfer, to be followed by completion of a subsequent legal transfer of the business. The Group's UK Legacy business is 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.

During the period RSA has entered into an agreement to make a contribution of £15m to Enstar Group Limited, which is contingent upon Court approval of the completion of the Part VII legal transfer of the UK Legacy business.

Profit on disposal of business and realised gains on held for sale assets

The UK Noble Marine entities have been classified as Held for Sale at fair value resulting in a **£4m** write down. The disposal was completed in February 2019.

A gain of **£2m** was recognised following the liquidation of Royal and Sun Alliance (Ireland) Limited.

In 2017, the net gain of £69m includes £66m relating to the realised gain on the investments transferred as part of the UK Legacy reinsurance transaction, a gain of £17m relating to the reversal of part of the valuation adjustment on the Group's Oman business and a gain of £7m on the disposal of the Accident and Repairs business in the UK, offset by a charge of £22m on the commutation of the Group's Adverse Development Cover reinsurance protection bought partly to protect the UK Legacy book.

6. REORGANISATION COSTS

In 2017, the reorganisation costs of £155m (note 7) are directly associated with continuing operations. The amounts are directly attributable to redundancy £68m and other restructuring activity of £87m. Restructuring costs in 2017 related to amounts incurred across the Group for activities such as process re-engineering and other cost reduction initiatives such as office footprint consolidation and reduction, reducing spans of control, and outsourcing. The restructuring programme is now complete with no such costs incurred in 2018.

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

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);
- Operating result.

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

Underwriting result, COR and 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.

7. SEGMENTAL INFORMATION (CONTINUED)

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)**
Operating result (management basis)	**306**	**84**	**105**	**22**	**517**
Realised gains					**22**
Unrealised gains/(losses), impairments and foreign exchange					**(2)**
Interest costs					**(25)**
Amortisation of intangible assets					**(13)**
Pension net interest and administration costs					**(6)**
Regulatory costs					**(4)**
Impairment of goodwill					**(7)**
Loss on disposal of business and realised losses on held for sale assets					**(2)**
Profit before tax					**480**
Tax on operations					**(108)**
Profit after tax					**372**
Combined operating ratio (%)	**86.8%**	**98.5%**	**101.4%**		**96.2%**

Year ended 31 December 2017

	Scandinavia	Canada	UK & International	Central Functions	Total Group
	£m	£m	£m	£m	£m
Net written premiums	1,833	1,619	3,199	27	6,678
Underwriting result	315	98	(82)	63	394
Investment result	74	61	149	-	284
Central costs and other activities	-	-	-	(15)	(15)
Operating result (management basis)	389	159	67	48	663
Realised gains					19
Unrealised losses, impairments and foreign exchange					(1)
Interest costs					(102)
Amortisation of intangible assets					(15)
Pension net interest and administration costs					(7)
Reorganisation costs					(155)
Impairment of intangible assets and similar charges					(23)
Profit on disposal of business and realised gains on held for sale assets					69
Profit before tax					448
Tax on operations					(126)
Profit after tax					322
Combined operating ratio (%)	82.9%	93.9%	102.6%		94.0%

8. INCOME TAX

The tax amounts charged/(credited) in the income statement are as follows:

	2018 **£m**	2017 £m
Current tax	**94**	136
Deferred tax	**14**	(10)
Taxation attributable to the Group	**108**	126

Reconciliation of the income tax expense

	2018 **£m**	2017 £m
Profit before tax	**480**	448
Tax at the UK rate of **19.0%** (2017: 19.2%)	**91**	86
Tax effect of:		
Income/gains not taxable (or taxed at lower rate)	**(7)**	(8)
Expenses not deductible for tax purposes	**1**	6
Non-taxable (profit)/loss on sale of subsidiaries	**(1)**	-
Impairment and amortisation of goodwill	**2**	(2)
Movement in deferred tax assets not recognised	**10**	4
Increase/(decrease) of tax provided in respect of prior periods	**(6)**	-
Different tax rates of subsidiaries operating in other jurisdictions	**11**	11
Withholding tax on dividends and interest from subsidiaries	**4**	29
Effect of change in tax rates	**(2)**	2
Deductible Restricted Tier 1 coupon in equity	**(3)**	(2)
One off tax charge on Swedish Safety Reserve	**6**	-
Other	**2**	-
Income tax expense	**108**	126

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

	Current Tax		Deferred Tax		Total	
	2018 **£m**	2017 £m	**2018** **£m**	2017 £m	**2018** **£m**	2017 £m
Exchange gains and losses	**(3)**	-	**3**	-	**-**	-
Fair value gains and losses	**41**	20	**(18)**	(18)	**23**	2
Remeasurement of net defined benefit pension liability	**14**	-	**(30)**	15	**(16)**	15
Total credited/(charged) to other comprehensive income	**52**	20	**(45)**	(3)	**7**	17

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** (2017: £nil).

There are no material uncertain tax provisions in the Group at 31 December 2018 (2017: £nil).

8. INCOME TAX (CONTINUED)

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.

	2018		2017	
	Current Tax	**Deferred Tax**	Current Tax	Deferred Tax
UK	**19.0 %**	**17.0 %**	19.2 %	17.0 %
Canada	**27.7 %**	**27.7 %**	27.2 %	27.2 %
Denmark	**22.0 %**	**22.0 %**	22.0 %	22.0 %
Ireland	**12.5 %**	**12.5 %**	12.5 %	12.5 %
Sweden	**22.0 %**	**20.6 %**	22.0 %	22.0 %

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 **1,026,040,413** for basic EPS and **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 2018 was **1,026,814,592** (excluding those held in ESOP and SIP trusts).

Basic EPS

	2018	2017
Profit attributable to the shareholders of the Parent Company (£m)	**349**	289
Less: cumulative preference dividends (£m)	**(9)**	(9)
Less: Tier 1 notes coupon payment (£m)	**(14)**	(11)
Profit for the calculation of earnings per share (£m)	**326**	269
Weighted average number of ordinary shares in issue (thousands)	**1,026,040**	1,021,418
Basic earnings per share (p)	**31.8**	26.3

Diluted EPS

	2018	2017
Weighted average number of ordinary shares in issue (thousands)	**1,026,040**	1,021,418
Adjustments for share options and contingently issuable shares (thousands)	**4,410**	7,081
Total weighted average number of ordinary shares for diluted earnings per share (thousands)	**1,030,450**	1,028,499
Diluted earnings per share (p)	**31.6**	26.1

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 10 May 2019, a final dividend in respect of the year ended 31 December 2018 of **13.7p** per ordinary share amounting to a total dividend of **£141m** is to be proposed. The proposed dividend will be paid and accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2019.

	2018	2017	**2018**	2017
	p	p	**£m**	£m
Ordinary dividend:				
Final paid in respect of prior year	**13.0**	11.0	**133**	112
Interim paid in respect of current year	**7.3**	6.6	**75**	68
	20.3	17.6	**208**	180
Preference dividend			**9**	9
Tier 1 notes coupon payment			**14**	11
			231	200

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 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**

11. GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

	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 2017	440	128	82	753	259	1,662
Additions	-	-	-	131	-	131
Disposals	-	-	-	(28)	-	(28)
Exchange adjustment	1	4	-	3	(3)	5
At 31 December 2017	441	132	82	859	256	1,770
Accumulated amortisation						
At 1 January 2017	-	128	68	418	172	786
Amortisation charge	-	-	9	66	19	94
Amortisation on disposals	-	-	-	(28)	-	(28)
Exchange adjustment	-	4	-	-	(2)	2
At 31 December 2017	-	132	77	456	189	854
Accumulated impairment						
At 1 January 2017	95	-	-	48	5	148
Impairment charge	-	-	-	20	-	20
Reversal of held for sale valuation adjustment	(17)	-	-	-	-	(17)
Exchange adjustment	1	-	-	1	-	2
At 31 December 2017	79	-	-	69	5	153
Carrying amount at 31 December 2017	362	-	5	334	62	763

Amortisation

Amortisation expense of **£75m** (2017: £79m) has been charged to underwriting and policy acquisition costs with the remainder recognised in other operating expenses.

Impairments

During 2018 the software impairment charge was **£2m** (2017: £20m), which was recognised in underwriting and policy acquisition costs (2017: £nil).

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.

Where the value in use is less than the current carrying value of the CGU in the statement of financial position, the goodwill is impaired in order to ensure that the CGU carrying value is not greater than its future value to the Group.

11. GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

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

	2018 £m	2017 £m
Scandinavia (Sweden, Norway, Denmark)	**148**	155
Canada (Commercial, Johnson, Personal, Travel)	**157**	157
UK and International (Ireland, Oman)	**42**	50
Total Goodwill	**347**	362

During the Group annual impairment testing it was identified that the carrying value of Norway goodwill was greater than the CGU value in use. As a result an impairment of **£7m** has been recognised in other operating expenses. The remaining carrying value is **£16m**. The key assumptions used in determining the value in use for the Norway CGU are as follows:

	Norway CGU
Discount Rate	**9.5%**
Weighted Average Growth Rate	**2.5%**

Goodwill of **£4m** in respect of the UK Noble Marine entities has been 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.

In 2016, legislation was issued by the Oman Government requiring a proportion of the company to be offered to the public. This was expected to result in the Group losing control and therefore the Oman business was classified as held for sale. Consequently the business was measured at fair value less costs to sell resulting in a valuation adjustment in 2016 of £30m. The proportion of business sold in 2017 was lower than expected resulting in control being retained by the Group. Goodwill of £17m was reinstated in 2017 as a consequence.

Impairment sensitivity

Following completion of the goodwill impairment testing, it was identified that the Norway CGU was sensitive to changes in key assumptions.

The sensitivities are listed below:

	Norway Potential impairment	
	2% £m	5% £m
Change to each year of the planning period (2019 to 2021)		
Decrease in earned premium	**(1)**	**(1)**
Increase in COR%	**(6)**	**(14)**

The range of pre-tax discount rates used for goodwill impairment testing, which reflect specific risks relating to the CGU at the date of evaluation and weighted average growth rates used in 2018 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	
	2018	2017	2018	2017
Scandinavia	**8%-10%**	10%-11%	**1%-3%**	1%-3%
Canada	**10%**	11%-13%	**3%-4%**	2%-4%
UK & International	**8%-9%**	9%-11%	**1%**	2%

12. FINANCIAL ASSETS

The following tables analyse the Group's financial assets by classification as at 31 December 2018 and 31 December 2017.

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

As at 31 December 2017

	At fair value through profit and loss (FVTPL)	Available for sale	Loans and receivables	Total
	£m	£m	£m	£m
Equity securities	-	764	-	764
Debt securities	18	10,642	-	10,660
Financial assets measured at fair value	18	11,406	-	11,424
Loans and receivables	-	-	219	219
Total financial assets	18	11,406	219	11,643

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

	2018				2017
	Cost/ amortised cost	Unrealised gains	Unrealised losses and impairments	Fair value	Fair value
	£m	£m	£m	£m	£m
Equity securities	767	39	(67)	739	764
Debt securities	10,294	306	(130)	10,470	10,660
Financial assets measured at fair value	11,061	345	(197)	11,209	11,424
Loans and receivables	249	-	-	249	219
Total financial assets	11,310	345	(197)	11,458	11,643

Collateral

At 31 December 2018, the Group had pledged **£550m** (2017: £514m) of financial assets as collateral for liabilities or contingent liabilities. The assets pledged are included within the balance sheet as follows; government debt securities of **£475m** (2017: £461m), cash and cash equivalents of **£75m** (2017: £43m) and non-government debt securities of **£nil** (2017: £10m). The terms and conditions of the collateral pledged are market standard in relation to letter of credit facilities and derivative transactions.

At 31 December 2018, the Group has accepted **£313m** (2017: £31m) in collateral. The assets accepted are included within the balance sheet as follows; government debt securities of **£281m** (2017: £4m), cash and cash equivalents of **£21m** (2017: £16m) and non-government debt securities of **£11m** (2017: £10m). The Group is permitted to sell or repledge collateral held in the event of default by the owner. The fair value of the collateral accepted is **£313m** (2017: £31m). The terms and conditions of the collateral held are market standard. The assets held as collateral are readily convertible into cash.

12. FINANCIAL ASSETS (CONTINUED)

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 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)**

As at 31 December 2017

	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)	1,253	-	-	1,253	21	(5)
Currency risk (cash flow)	1	5	-	6	1	-
Cross currency interest swaps (fair value/ cash flow)	4	159	181	344	3	(44)
Total					25	(49)
At FVTPL						
Currency risk mitigation	223	-	-	223	2	-
Inflation risk mitigation	-	60	323	383	43	(39)
Total					45	(39)
Total derivatives					70	(88)

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 2018 or 2017.

12. FINANCIAL ASSETS (CONTINUED)

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 one month and 37 years, with the substantial majority having a term of less than six 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 gains on cash flow hedge instruments during 2018 were **£nil** (2017: £3m) in the consolidated statement of other comprehensive income, and the amount reclassified to the income statement was **£1m** (2017: £1m). There was no ineffectiveness recognised in the income statement in respect of these hedges during 2018 or 2017.

The total losses on the fair value hedge instruments recognised in the income statement were **£44m** (2017: £45m) and the offsetting gains related to the hedged risk were **£45m** (2017: £50m).

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 2018, the Group took out borrowings from credit institutions under repurchase agreements of **£107m** (2017: £119m). 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.

	Amounts subject to enforceable netting arrangements					
	Effect of offsetting in statement of financial position			Related items not offset		
As at 31 December 2018	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**
Reverse repurchase arrangements and other similar secured lending	**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)**	**-**

12. FINANCIAL ASSETS (CONTINUED)

As at 31 December 2017	Gross amounts	Amounts offset	Net amounts reported	Financial instruments	Financial collateral	Net amount
	Amounts subject to enforceable netting arrangements					
	Effect of offsetting in statement of financial position			Related items not offset		
	£m	£m	£m	£m	£m	£m
Derivative financial assets	70	-	70	(54)	(15)	1
Reverse repurchase arrangements and other similar secured lending	119	-	119	(119)	-	-
Total assets	189	-	189	(173)	(15)	1
Derivative financial liabilities	88	-	88	(54)	(31)	3
Repurchase arrangements and other similar secured borrowing	119	-	119	(119)	-	-
Total liabilities	207	-	207	(173)	(31)	3

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 per cent 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 2018 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 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**

As at 31 December 2017

	SPPI financial assets	**Other financial assets**	**Total**
	£m	**£m**	**£m**
Available for sale equity securities	-	764	764
Available for sale debt securities	10,442	200	10,642
Debt securities at FVTPL	-	18	18
Loans and receivables	219	-	219
Derivative assets held for trading	-	45	45
Fair value at 31 December 2017	10,661	1,027	11,688

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.

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.

Loan capital

The fair value measurement of the Group's loan capital 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 loan capital 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).

13. FAIR VALUE MEASUREMENT (CONTINUED)

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.

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 limited 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. 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 2018			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£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
Loan capital	-	460	-	460
Total value of liabilities not measured at fair value	-	460	-	460

13. FAIR VALUE MEASUREMENT (CONTINUED)

	Fair value hierarchy 2017			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Group occupied property - land and buildings	-	-	35	35
Investment properties	-	-	308	308
Available for sale financial assets:				
Equity securities	407	7	350	764
Debt securities	3,711	6,604	327	10,642
Financial assets at FVTPL:				
Debt securities	-	-	18	18
	4,118	6,611	1,038	11,767
Derivative assets:				
At FVTPL	-	45	-	45
Designated as hedging instruments	-	25	-	25
Total assets measured at fair value	4,118	6,681	1,038	11,837
Derivative liabilities:				
At FVTPL	-	39	-	39
Designated as hedging instruments	-	49	-	49
Total liabilities measured at fair value	-	88	-	88
Loan capital	-	507	-	507
Total value of liabilities not measured at fair value	-	507	-	507

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	**Debt securities**	**Equity securities**	**Debt securities**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
At 1 January 2017	363	290	6	19	678
Total gains/(losses) recognised in:					
Income statement	2	-	-	(1)	1
Other comprehensive income	(12)	(6)	-	-	(18)
Purchases	22	59	-	-	81
Disposals	(31)	(16)	(6)	-	(53)
Exchange adjustment	6	-	-	-	6
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**
Level 3 financial assets at 31 December 2018	**355**	**410**	**-**	**19**	**784**

13. FAIR VALUE MEASUREMENT (CONTINUED)

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			
		2018		2017	
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)**	35	(5)
Investment properties[1]	Cash flows; discount rate	**310**	**(51)**	308	(48)
Level 3 available for sale financial assets:					
Equity securities[2]	Cash flows; discount rate	**355**	**(10)**	350	(10)
Debt securities[2]	Cash flows; discount rate	**410**	**(10)**	327	(9)
Total		**1,094**	**(74)**	1,020	(72)

[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

	2018	2017
	£m	£m
Reinsurers' share of provisions for unearned premiums	**739**	729
Reinsurers' share of provisions for losses and loss adjustment expenses	**1,532**	1,523
Total reinsurers' share of insurance contract liabilities net of held for sale	**2,271**	2,252
To be settled within 12 months	**964**	1,187
To be settled after 12 months	**1,307**	1,065

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

	2018	2017
	£m	£m
Reinsurers' share of provision for unearned premiums at 1 January	**729**	818
Premiums ceded to reinsurers	**997**	920
Reinsurers' share of premiums earned	**(991)**	(977)
Changes in reinsurance asset	**6**	(57)
Reinsurers' share of portfolio transfers and disposals of subsidiaries	**-**	(27)
Exchange adjustment	**4**	(5)
Total reinsurers' share of provision for unearned premiums at 31 December	**739**	729

14. REINSURERS' SHARE OF INSURANCE CONTRACT LIABILITIES (CONTINUED)

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

	2018 £m	2017 £m
Reinsurers' share of provisions for losses and loss adjustment expenses at 1 January	**2,159**	1,530
Reinsurers' share of total claims incurred	**543**	786
Total reinsurance recoveries received	**(619)**	(730)
Reinsurance of UK Legacy	**-**	568
Exchange adjustment	**23**	(23)
Other movements	**30**	28
Reinsurers' share of provisions for losses and loss adjustment expenses at 31 December	**2,136**	2,159
Less: Assets classified as held for sale	**604**	636
Total reinsurers' share of provisions for losses and loss adjustment expenses at 31 December net of held for sale	**1,532**	1,523

15. CURRENT AND DEFERRED TAX

Current Tax

	Asset		Liability	
	2018 £m	2017 £m	2018 £m	2017 £m
To be settled within 12 months	**43**	40	**6**	13
To be settled after 12 months	**28**	3	**8**	11
Current tax position at 31 December	**71**	43	**14**	24

Deferred Tax

	Asset		Liability	
	2018 £m	2017 £m	2018 £m	2017 £m
Deferred tax position at 31 December	**234**	276	**79**	56

The following are the major deferred tax assets/(liabilities) recognised by the Group:

	2018 £m	2017 £m
Net unrealised gains on investments	**(34)**	(31)
Intangibles capitalised	**(25)**	(24)
Deferred acquisition costs	**(8)**	(8)
Tax losses and unused tax credits	**80**	97
Accrued costs deductible when settled	**87**	87
Net insurance contract liabilities	**(15)**	(18)
Retirement benefit obligations	**20**	53
Capital allowances	**51**	55
Provisions and other temporary differences	**(1)**	9
Net deferred tax asset at 31 December	**155**	220

15. CURRENT AND DEFERRED TAX (CONTINUED)

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

		2018 £m	2017 £m
Net deferred tax asset at 1 January		**220**	216
Amounts (charged)/credited to income statement		**(15)**	10
Amounts (charged) to other comprehensive income		**(46)**	(3)
Net arising on acquisition of subsidiaries and other transfers		**(5)**	-
Exchange adjustments		**(1)**	(3)
Effect of change in tax rates	- income statement	**1**	-
	- other comprehensive income	**1**	-
Net deferred tax asset at 31 December		**155**	220

At the end of the reporting period, the Group's continuing operations have unused tax losses of **£2,509m** (2017: £2,326m) for which no deferred tax asset is being recognised. The Group's unused tax losses are predominantly located in the UK and Ireland. The Group's unused losses includes capital losses of **£1,195m** (2017: £1,189m); almost all of which relate to the UK. No deferred tax asset is recognised for these losses 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 unused tax losses are subject to expiry. In addition, the Group has deductible temporary differences of **£196m** (2017: £198m) for which no deferred tax has been recognised; predominantly unclaimed UK tax depreciation.

The Group has temporary differences in respect of the retained earnings of overseas subsidiaries not held for sale of **£501m** (2017: £509m) on which overseas taxes, including withholding taxes, might be incurred on the remittance of these earnings to the UK. This amount relates to the Group's subsidiaries in Canada. The Group is able to 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.

Of the **£155m** (2017: £220m) net deferred tax asset recognised by the Group, **£204m** (2017: £233m) relate to tax jurisdictions in which the Group has suffered a loss in either the current or preceding period; **£189m** (2017: £217m) of which relates to the UK. Although a UK tax loss arose in 2018, this was due to a one off pension deficit contribution of £45m in December 2018.

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. The evidence for the future taxable profits is a seven year forecast based on the three year operational plans prepared by the relevant businesses, which are subject to internal review and challenge, including by the Board. 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 continue to be supportable.

The majority of the deferred tax asset recognised based on future profits is that in respect of the UK. The value of the deferred tax asset is sensitive to assumptions in respect of UK future profits. Sensitivity analysis includes a 1% increase in the UK combined operating ratio for all of the 7 years in the forecast period, the impact of which would reduce the UK net deferred tax asset by **£17m**. The analysis also includes a one year change in the projection period, the impact of which is a change in the UK net deferred tax asset of **£23m**. The relationship between the net deferred tax asset and these sensitivities is not always linear. Therefore, the cumulative impact on the net deferred tax asset of combined sensitivities or longer extrapolations based on the above numbers will be indicative only.

16. CASH AND CASH EQUIVALENTS

	2018 £m	2017 £m
Cash and cash equivalents and bank overdrafts (consolidated statement of cash flows)	**781**	1,049
Add: Overdrafts reported in other borrowings	**12**	4
Total cash and cash equivalents	**793**	1,053
Less: Assets classified as held for sale	**5**	5
Total cash and cash equivalents (consolidated statement of financial position)	**788**	1,048

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 2018 is:

	2018 £m	2017 £m
Issued and fully paid		
1,026,937,928 Ordinary Shares of £1 each (2017: 1,022,835,039 Ordinary Shares of £1 each)	**1,027**	1,023
125,000,000 Preference Shares of £1 each (2017: 125,000,000 Preference Shares of £1 each)	**125**	125
	1,152	1,148

During 2018, the Company issued a total of **4,102,889** new Ordinary Shares of £1 each ranking pari passu with Ordinary Shares in issue (2017: 3,280,053 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 2017	1,019,554,986	1,020	1,080
Issued in respect of employee share options and employee share awards	3,280,053	3	3
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 31 December 2018	**1,026,937,928**	**1,027**	**1,087**

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

123,336 Ordinary Shares (2017: 157,866 Ordinary Shares) are held by the Share Incentive Plan Trust which may subsequently be transferred to employees (including Executive Directors) to satisfy Sharebuild Matching Share awards. 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.

At 31 December 2018, the total number of options over Ordinary Shares outstanding under the Group employee share option plans is **4,465,067** (2017: 4,996,149) and the total number of potential shares outstanding under the long term incentive plan and under the Sharebuild is **10,897,021** Ordinary Shares (2017: 11,940,129 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. LOAN CAPITAL

	2018	2017
	£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**	441

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%. Of the £500m bonds issued the Group has bought back a total nominal value of £461m. The remaining £39m has a first call date of 20 May 2019.

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.

There have been no defaults on any bonds or notes during the year. The Group has the option to defer interest payments on the bonds and notes, but has to date not exercised this right.

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.

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 margin of 5% for the core businesses 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	**2018** **£m**	2017 £m
Net loss ratio 5%	**(327)**	(330)
Expenses 10%	**(136)**	(142)

Discount assumptions

The total value of provisions for losses and loss adjustment expenses less related reinsurance recoveries before discounting for continuing operations is **£8,494m** (2017: £8,520m).

Claims (excluding annuities) on certain classes of business have been discounted as follows:

		Discount rate		Average number of years to settlement from reporting date	
	Category	**2018** %	2017 %	**2018** **Years**	2017 Years
UK	Asbestos and environmental	**4.0**	4.0	**8**	8
Scandinavia	Disability	**1.3**	1.3	**6**	8

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

20. INSURANCE CONTRACT LIABILITIES (CONTINUED)

As at 31 December 2018, the value of the discount on net claims liability reserves is **£92m** (2017: £111m) excluding held for sale, annuities and periodic payment orders. All other factors remaining constant, a decrease of 1% in the discount rates would reduce the value of the discount by approximately **£60m** (2017: £70m).

As at 31 December 2018, the value of the discount on UK and Scandinavia annuities is **£466m** (2017: 455m). A decrease of 1% in the real discount rate would reduce the value of the discount by approximately **£110m** (2017: £100m). 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 statement of financial position are comprised as follows:

	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**

	Gross	RI	Net
	2017	2017	2017
	£m	£m	£m
Provision for unearned premiums	3,316	(729)	2,587
Provision for losses and loss adjustment expenses	10,113	(2,159)	7,954
Total insurance contract liabilities	13,429	(2,888)	10,541
Less: Held for sale provisions for losses and loss adjustment expenses	636	(636)	-
Provision for unearned premiums at 31 December net of held for sale	3,316	(729)	2,587
Provision for losses and loss adjustment expenses at 31 December net of held for sale	9,477	(1,523)	7,954
Total insurance contract liabilities excluding held for sale	12,793	(2,252)	10,541

Provision for unearned premiums, gross of acquisition costs

	2018	2017
	£m	£m
Provision for unearned premiums (gross of acquisition costs) at 1 January	**3,986**	3,994
Premiums written	**7,467**	7,599
Less: Premiums earned	**(7,528)**	(7,583)
Changes in provision for unearned premiums	**(61)**	16
Exchange adjustment	**(6)**	(24)
Provision for unearned premiums (gross of acquisition costs) at 31 December	**3,919**	3,986

20. INSURANCE CONTRACT LIABILITIES (CONTINUED)

The provision for unearned premiums is shown net of deferred acquisition costs of **£675m** (2017: £670m). The reasons for the movement in deferred acquisition costs during 2018 are as follows:

	2018	2017
	£m	£m
Acquisition costs deferred during the year	**1,035**	1,101
Amortisation charged during the year	**(1,028)**	(1,094)
Exchange losses	**(2)**	(4)
Other movements	**-**	4
Movement in deferred acquisition costs	**5**	7

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:

	2018	2017
	£m	£m
Provisions for losses and loss adjustment expenses at 1 January	**10,113**	10,083
Gross claims incurred and loss adjustment expenses	**5,023**	5,135
Total claims payments made in the year net of salvage and other recoveries	**(5,123)**	(5,093)
Gross portfolio transfers, acquisitions and disposals	**-**	(46)
Exchange adjustment	**(5)**	(27)
Other movements	**64**	61
Provisions for losses and loss adjustment expenses at 31 December	**10,072**	10,113
Less: Liabilities classified as held for sale	**604**	636
Provisions for losses and loss adjustment expenses at 31 December net of held for sale	**9,468**	9,477

Claims development tables

The tables below present changes in the historical provisions for losses and loss adjustment expenses that were established in 2005 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.

20. INSURANCE CONTRACT LIABILITIES (CONTINUED)

Consolidated claims development table gross of reinsurance

	2008 and prior	2009	2010	2011	2012	2013	2014	2015	2016	2017	**2018**	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	**£m**	£m
Estimate of cumulative claims												
At end of accident year	9,128	2,533	2,802	2,981	2,839	3,145	2,823	2,931	2,830	2,999	**3,259**	
One year later	8,787	2,616	2,927	3,037	2,877	3,200	2,929	2,972	2,868	2,966		
Two years later	8,386	2,575	2,871	3,065	2,848	3,118	2,842	2,962	2,823			
Three years later	8,071	2,541	2,902	2,991	2,838	3,072	2,825	2,909				
Four years later	7,821	2,569	2,888	2,925	2,790	3,074	2,800					
Five years later	7,703	2,564	2,852	2,893	2,804	3,041						
Six years later	7,635	2,525	2,813	2,889	2,782							
Seven years later	7,788	2,541	2,799	2,852								
Eight years later	7,950	2,545	2,781									
Nine years later	7,814	2,534										
Ten years later	7,755											
2018 movement	**59**	**11**	**18**	**37**	**22**	**33**	**25**	**53**	**45**	**33**		**336**
Claims paid												
One year later	2,474	1,200	1,527	1,373	1,347	1,477	1,337	1,477	1,418	1,477		
Two years later	1,352	421	416	513	499	553	423	548	502			
Three years later	852	270	284	331	288	271	290	288				
Four years later	616	199	211	192	187	204	269					
Five years later	554	148	114	107	144	122						
Six years later	373	72	64	77	65							
Seven years later	189	38	52	48								
Eight years later	180	32	15									
Nine years later	241	18										
Ten years later	75											
Cumulative claims paid	**6,906**	**2,398**	**2,683**	**2,641**	**2,530**	**2,627**	**2,319**	**2,313**	**1,920**	**1,477**		
Reconciliation to the statement of financial position												
Current year provision before discounting	849	136	98	211	252	414	481	596	903	1,489	**3,259**	8,688
Exchange adjustment to closing rates												83
Discounting												(96)
Annuities												793
Present value recognised in the consolidated statement of financial position												**9,468**
Held for sale												604
Total Group												**10,072**

20. INSURANCE CONTRACT LIABILITIES (CONTINUED)

Consolidated claims development table net of reinsurance

	2008 and prior	2009	2010	2011	2012	2013	2014	2015	2016	2017	**2018**	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	**£m**	£m
Estimate of cumulative claims												
At end of accident year	7,732	2,234	2,462	2,524	2,586	2,830	2,487	2,445	2,253	2,287	**2,440**	
One year later	7,374	2,301	2,546	2,501	2,606	2,928	2,518	2,381	2,302	2,325		
Two years later	6,983	2,268	2,508	2,479	2,585	2,851	2,473	2,339	2,283			
Three years later	6,674	2,240	2,521	2,432	2,546	2,821	2,425	2,304				
Four years later	6,444	2,273	2,528	2,387	2,506	2,784	2,405					
Five years later	6,342	2,275	2,496	2,363	2,505	2,765						
Six years later	6,311	2,254	2,473	2,349	2,485							
Seven years later	6,395	2,249	2,461	2,325								
Eight years later	6,683	2,238	2,445									
Nine years later	6,630	2,228										
Ten years later	6,601											
2018 movement	**29**	**10**	**16**	**24**	**20**	**19**	**20**	**35**	**19**	**(38)**		**154**
Claims paid												
One year later	2,057	1,072	1,273	1,085	1,207	1,406	1,163	1,200	1,055	1,184		
Two years later	1,101	356	372	411	420	430	366	321	375			
Three years later	716	235	264	267	244	241	216	214				
Four years later	544	188	212	176	193	189	188					
Five years later	476	128	98	105	122	117						
Six years later	337	69	60	64	62							
Seven years later	146	33	49	43								
Eight years later	157	27	11									
Nine years later	223	17										
Ten years later	69											
Cumulative claims paid	**5,826**	**2,125**	**2,339**	**2,151**	**2,248**	**2,383**	**1,933**	**1,735**	**1,430**	**1,184**		
Reconciliation to the statement of financial position												
Current year provision before discounting	775	103	106	174	237	382	472	569	853	1,141	**2,440**	7,252
Exchange adjustment to closing rates												66
Discounting												(92)
Annuities												710
Present value recognised in the consolidated statement of financial position												**7,936**
Held for sale												-
Total Group												**7,936**

Insurance and reinsurance liabilities

	2018	2017
	£m	£m
Direct insurance creditors	**120**	113
Reinsurance creditors	**811**	823
Total insurance and reinsurance liabilities	**931**	936
Less: Liabilities classified as held for sale	**3**	2
Total	**928**	934

21. POST-RETIREMENT BENEFITS AND OBLIGATIONS

Defined benefit pension schemes and other post-retirement benefits

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

	2018			2017		
	UK	**Other**	**Total**	UK	Other	Total
	£m	**£m**	**£m**	£m	£m	£m
Present value of funded obligations	**(7,474)**	**(401)**	**(7,875)**	(8,326)	(434)	(8,760)
Present value of unfunded obligations	**(7)**	**(92)**	**(99)**	(7)	(111)	(118)
Fair value of plan assets	**7,841**	**424**	**8,265**	8,344	455	8,799
Other net surplus remeasurements	**(129)**	**-**	**(129)**	(62)	-	(62)
Net IAS19 surplus/(deficits) in the schemes	**231**	**(69)**	**162**	(51)	(90)	(141)
Defined benefit pension schemes	**231**	**(21)**	**210**	(51)	(30)	(81)
Other post-retirement benefits	**-**	**(48)**	**(48)**	-	(60)	(60)
Schemes in surplus	**238**	**21**	**259**	119	22	141
Schemes in deficit	**(7)**	**(90)**	**(97)**	(170)	(112)	(282)

Movement during the year:

	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**

21. POST-RETIREMENT BENEFITS AND OBLIGATIONS (CONTINUED)

	2017			
	Present value of obligations	Fair value of plan assets	Other net surplus remeasurements	Net surplus / (deficit)
	£m	£m	£m	£m
At 1 January	(8,893)	8,641	-	(252)
Current service costs	(11)	-	-	(11)
Past service costs	(1)	-	-	(1)
Interest (expense) / income	(249)	243	-	(6)
Administration costs	-	(7)	-	(7)
Gains on settlements/curtailments	6	-	-	6
Total (expenses) / income recognised in income statement	(255)	236	-	(19)
Return on scheme assets less amounts in interest income	-	277	-	277
Effect of changes in financial assumptions	(309)	-	-	(309)
Effect of changes in demographic assumptions	166	-	-	166
Experience gains and losses	(34)	-	-	(34)
Investment expenses	-	(11)	-	(11)
Other net surplus remeasurements	-	-	(62)	(62)
Remeasurements recognised in other comprehensive income	(177)	266	(62)	27
Employer contribution	-	101	-	101
Benefit payments	440	(440)	-	-
Exchange adjustment	7	(5)	-	2
At 31 December	(8,878)	8,799	(62)	(141)
Deferred tax				53
IAS 19 net (deficit) net of deferred tax				(88)

The value of scheme assets are as follows:

	2018			2017[1]		
	UK	**Other**	**Total**	UK	Other	Total
	£m	**£m**	**£m**	£m	£m	£m
Equities	**552**	**96**	**648**	591	161	752
Government debt	**5,353**	**163**	**5,516**	5,688	147	5,835
Non-government debt	**2,425**	**133**	**2,558**	2,505	114	2,619
Derivatives	**719**	**-**	**719**	743	-	743
Property	**644**	**-**	**644**	622	-	622
Cash	**194**	**6**	**200**	63	7	70
Other (including annuity contracts, infrastructure and growth alternatives)	**460**	**26**	**486**	519	26	545
Investments	**10,347**	**424**	**10,771**	10,731	455	11,186
Value of asset and longevity swaps	**(2,506)**	**-**	**(2,506)**	(2,387)	-	(2,387)
Total assets in the schemes	**7,841**	**424**	**8,265**	8,344	455	8,799

21. POST-RETIREMENT BENEFITS AND OBLIGATIONS (CONTINUED)

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

	2018			2017[1]		
	Total Quoted	**Total Unquoted**	**Total**	Total Quoted	Total Unquoted	Total
	£m	**£m**	**£m**	£m	£m	£m
Equities	**510**	**138**	**648**	616	136	752
Government debt	**5,121**	**395**	**5,516**	5,422	413	5,835
Non-government debt	**1,439**	**1,119**	**2,558**	1,300	1,319	2,619
Derivatives	**-**	**719**	**719**	-	743	743
Property	**-**	**644**	**644**	-	622	622
Cash	**200**	**-**	**200**	70	-	70
Other (including annuity contracts, infrastructure and growth alternatives)	**-**	**486**	**486**	-	545	545
Investments	**7,270**	**3,501**	**10,771**	7,408	3,778	11,186
Value of asset and longevity swaps	**-**	**(2,506)**	**(2,506)**	-	(2,387)	(2,387)
Total assets in the schemes	**7,270**	**995**	**8,265**	7,408	1,391	8,799

[1]The 2017 assets have been represented to reflect the investment characteristics of the underlying assets. Specifically, £433m of ground rent and long lease property assets are now reported in Property and £413m of non UK sovereign debt is now reported in Government debt. These assets had all previously been classified as non-government debt.

NOTES TO THE CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

22. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

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

	Note	2018 £m	2017 £m
Cash flows from operating activities			
Profit for the year before tax from continuing operations		**480**	448
Adjustments for non-cash movements in net profit for the year			
Amortisation of available for sale assets		**44**	58
Depreciation		**18**	22
Amortisation and impairment of intangible assets	**11**	**90**	114
Fair value (gains) on disposal of financial assets		**(31)**	(15)
Impairment charge/(reversal) on available for sale financial assets		**10**	(4)
Share of (profit) of associates		**(1)**	(1)
Loss/(profit) on disposal of business and realised losses/(gains) on held for sale assets		**2**	(69)
Foreign exchange (gain)/loss		**(13)**	7
Other non-cash movements		**20**	24
Changes in operating assets/liabilities			
Loss and loss adjustment expenses		**10**	2
Unearned premiums		**(75)**	68
Movement in working capital		**(199)**	(253)
Reclassification of investment income and interest paid		**(303)**	(181)
Pension deficit funding		**(111)**	(65)
Cash generated from investment of insurance assets			
Dividend income		**35**	32
Interest and other investment income		**293**	282
Cash flows from operating activities		**269**	469

23. RESULTS FOR THE YEAR 2018

This financial information set out above does not constitute statutory accounts for the years ended 31 December 2018 or 31 December 2017 but is derived from those accounts. Statutory accounts for 2017 have been delivered to the Registrar of Companies, and those for 2018 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/£	**12 Months 2018**		12 Months 2017	
	Average	**Closing**	Average	Closing
Canadian Dollar	**1.73**	**1.74**	1.67	1.70
Danish Krone	**8.42**	**8.31**	8.49	8.39
Swedish Krona	**11.60**	**11.29**	10.99	11.09
Euro	**1.13**	**1.11**	1.14	1.13

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

27 February 2019

Scott Egan
Group Chief Financial Officer
(appointed as CEO, UK & International on 5 February 2019)

27 February 2019