Registered Number: 00100097

Royal & Sun Alliance Reinsurance Limited

Annual Report and Accounts

For the year ended 31 December 2021

Royal & Sun Alliance Reinsurance Limited

Contents

Royal & Sun Alliance Reinsurance Limited

Company Information

Directors

Charlotte Jones

Louisa Leonard

Paul Dilley

Steven Watson

Secretary

Roysun Limited

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St Mark's Court
Chart Way
Horsham
West Sussex
RH12 1XL

Auditor

KPMG LLP
15 Canada Square
Canary Wharf
London
E14 5GL

Strategic report

For the year ended 31 December 2021

The directors present their annual report on the affairs of Royal & Sun Alliance Reinsurance Limited (the 'Company') and the audited financial statements for the year ended 31 December 2021.

The Company is a member of the Intact Financial Corporation Group of Companies (the 'Group'), headed by Intact Financial Corporation ('IFC' or 'Intact'). At a local level the Company is a member of the RSA Insurance Group of companies (the 'RSA Group' or 'RSA'), headed by Regent BidCo Limited. RSA Insurance Group Limited ('RSAIG') is a direct subsidiary of Regent BidCo Limited and due to its issued securities provides more detailed reporting on the RSA Group. The Company is a subsidiary of Royal Sun & Alliance Insurance Limited ('RSAI'). The RSA Group provides the Company with access to all central resources that it needs and provides policies in all key areas including finance, risk, human resources and environment. The directors of the Company have concluded that the RSA Group approach to strategy, risk management, performance review and custody of assets fully meets the needs of the Company as a separate regulated entity.

The Company is authorised by the Prudential Regulation Authority ('PRA') and regulated by the PRA and the Financial Conduct Authority ('FCA').

Principal activity

The principal activity of the Company and its overseas branches is to provide a settlement function for the insurance activities carried out by the Group offices and Global Network Partners.

Business review

The results for the Company show a profit on ordinary activities before tax of £2,821k (2020: £1,453k) for the year and gross premiums written of £329,476k (2020: £331,194k). The shareholder's funds of the Company were £76,898k as at 31 December 2021 (31 December 2020: £76,162k).

Key performance indicators ('KPIs')

The most relevant KPIs used by the Company in managing the business are as follows:

- Balance on technical account for general business; this measure is calculated by aggregating earned premiums less claims incurred less reinsurance commissions and expenses. The balance on the technical account for general business is £886k (2020: £880k).
- Regulatory solvency; The Solvency II SCR coverage ratio at the end of 2021 is approximately 3 times (2020: 4 times) based on the approved Internal Model used by the RSA Group as well as the Company.

The directors of RSAIG, and the Company, manage the RSA Group's operations on a divisional basis as described in the Annual Report & Accounts of RSAIG. For this reason, the Company's directors believe that analysis using KPIs for the UK business in aggregate is also relevant to the Company. Further information on KPIs can be found in the Strategic Report of the 2021 Annual Report & Accounts of the RSA Group.

Principal risks and uncertainties

The Company considers credit risk to be its principal risk as the Company utilises reinsurance agreements which fully transfer all insurance risks from the Company. This risk is integrated within and managed together with the other principal risks of the Group. The principal risks and uncertainties of the RSA Group, and those specific to the Company, are set out in the Financial risk management note below, the Risk management note on pages 20 to 25 of the Company Accounts and the Strategic report of the 2021 Annual Report & Accounts of the RSAIG.

Financial risk management

The Company is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular the key financial risk is that the proceeds from the realisation of its financial assets are not sufficient to fund the obligations arising from its insurance contracts. The Company is not exposed to risks arising from insurance contracts as risks are fully reinsured

The Company's management of risk is set at an RSA Group level. The RSA Group's approach to financial risk, through its management of credit, market and liquidity risks can be found in the risk and capital management section of the 2021 Annual Report and Accounts of RSAIG.

Credit risk

The Company has a credit risk insurance agreement with RSAI Limited which transfers the risk of the Global Network to RSAI. To this extent, credit risk is the risk of a reinsurer failing to fulfil its obligations.

The Company regularly monitors its aggregate exposures by the reinsurer against predetermined reinsurer Company limits, in accordance with the methodology agreed by the RSA Group's Board Risk Committee (BRC). The Company's largest reinsurance exposures are both with RSAI and Strategic Network Partners, which are given annual approval by the RSA Group Board.

A financial risk assessment is completed annually for all third party counterparties which is presented for approval to GRCC (Group Reinsurance Credit Committee) annually. All transactions are managed within credit limits set by the Group.

The Company is responsible for assessing and monitoring the creditworthiness of their counterparties (e.g. reinsurers). The Intact credit committee is responsible for ensuring these exposures are within its risk appetite. Exposure monitoring and reporting is embedded throughout the organisation with aggregate credit positions reported and monitored at Group level as well as by the Company.

Market risk

Market risk arises from the Company's investment portfolio and is the risk of adverse financial impact resulting, directly or indirectly, from fluctuations of interest rates and foreign currency exchange rates. Market risk arises in our operations due to the possibility that fluctuations in the value of liabilities are not offset by fluctuations in the value of investments held. Market risk is subject to the BRC risk management framework, which is subject to annual review and approval by the RSA Group Board.

Liquidity risk

Liquidity risk refers to the risk of loss to the Company 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 Company 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 Company's operational requirements based on actuarial assessment and allowing for contingencies. In addition Credit risk for intercompany balances is managed through a credit risk insurance policy which the Company has with RSAI.

Future outlook

There are not expected to be any changes to the Company's activities.

Anti-bribery and corruption

The Company takes its commitments to preventing bribery and corruption risk very seriously. Bribery and corruption are not tolerated anywhere in our business and this standard, led by the Board and Group Executive, applies globally.

The Anti-Corruption, Conflicts of Interest, Gifts and Hospitality policies apply across the RSA Group and are supported by extensive resources and guidance, including an anti-bribery toolkit, which is available to all our businesses. Mandatory RSA Group Anti-bribery and Corruption training is supplemented by targeted training for staff in higher risk roles, and all employees are required to complete training on whistleblowing. As a result, employees are equipped to identify and escalate issues and behaviours which may constitute corruption. The Company seeks to maintain the right culture by regular reminders of our expectations. Anti-Corruption processes are subject to review by Corporate Audit Services.

All operating countries must complete regular anti-corruption risk assessments covering all aspects of their businesses, including procedures and HR matters and the high expectations we have of our partners. Operating countries are all given guidance to support them to continuously improve their anti-corruption controls.

The Company strongly encourages our people to speak out if they have concerns about Anti Bribery and Corruption. An annually-reviewed RSA Group whistleblowing policy, available on the intranet, sets out the procedures for colleagues to confidentially raise concerns about suspected wrongdoing and malpractice.

Information on policy compliance is escalated to management. The board receives updates on our anti-corruption controls at least annually. Where a breach is material or not in compliance with regulations, it will be reported externally.

Human rights

As a signatory to the UN Global Compact, RSA is committed to aligning its operations with the ten universal principles that together cover our approach to environment, human rights, labour and anti-corruption. Our Human Rights Policy is designed to operationalise the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, and the UN Guiding Principles on Business and Human Rights. It sets the standard we expect for our employment practices, the actions of our supply chain, and principles we apply to our investment and underwriting portfolios. Our procurement team considers human rights when reviewing supplier tenders, as well as existing supplier contracts. Our aim is to raise awareness of issues, ensure that procedures are in place to prevent breaches, and conduct appropriate due diligence. We are subscribers to the Financial Services Qualification System (FSQS) operated by Hellios – a community of financial institutions collaborating to agree a single standard for managing supplier compliance, including with ESG policy areas such as modern slavery and environmental impact.

Greenhouse gas emissions

Information on the Company's greenhouse gas emission reporting can be found in the RSAIG annual report and accounts.

S172 General Duties of directors

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

The table on the next page sets out some highlights from the Board's engagement with key stakeholders during 2021, together with details of the actions taken as a result of the engagement.

Stakeholder group and why it is important to engage	Form of engagement and consideration of interests	Outcomes and actions
Customers Good business starts with our customers and we strive to keep them at the heart of what we do. To ensure that we offer the right products at the right price and on the right terms, we work hard to increase our understanding of our customers' risks and their evolving needs. Customer satisfaction and customer retention is critical to the long-term sustainable prospects of the Company.	The Board receives regular updates on risk and compliance matters. The directors receive regular updates on operational and underwriting risks and how these could impact customer outcomes. The directors consider impact to customer outcomes as part of their oversight of the company's risk profile. Customers are protected by virtue of the Company being part of the RSA Group and therefore benefits from 100% reinsurance agreement with Royal & Sun Alliance Insurance Limited.	Our aim to be a best-in-class insurer means an intense focus on improving customer service and our underwriting and claims technical skills. The Company aims to be proactive, digitally enabled whilst providing tailored products that address evolving customer demands and needs.
Shareholders The Company is wholly-owned by Royal & Sun Alliance Insurance Limited and part of the RSA Group Limited group of companies. Its ultimate shareholder is Intact Financial Corporation, a company listed on the Toronto Stock Exchange.	The directors are senior members within the RSA Group and are in regular contact with the directors of the RSA Board which includes representatives from the ultimate shareholder. There is regular sharing of information between Intact and RSA through various forums and communication channels, which ensures any matters of concern between the Company and its ultimate shareholder can be raised.	Two-way dialogue with the ultimate shareholder is important to the Board and the directors agree that the mechanisms in place to discuss Company matters with the ultimate shareholder are satisfactory.
Regulators RSA is committed to working with all of its regulators in an open, cooperative and transparent manner. We seek to ensure a strong regulatory compliance culture throughout the Company in order to pre-empt and, where necessary, resolve regulatory issues and to avoid or minimise business impact and surprises. The Board continues to have constructive engagement with our regulators, ensuring that they gain a comprehensive view of the Company's governance priorities and that we understand the issues of interest to them.	The Board receives periodic updates from the business on regulatory matters and priorities, including the priorities of the Group's regulators in regions other than the UK. Due to the significance of the acquisition of the RSA by Intact and Tryg, the regulatory capital requirements of RSA was a central topic of discussion with relevant regulators as well as its culture and governance, solvency, liquidity and treating customers fairly.	We receive positive feedback from our meetings with our regulators. The open and regular dialogue has promoted transparency between the Company and the regulators and ensures that we are in a position to reflect the views of our regulators when setting strategy. The outcomes of our engagement with our regulators influences the priorities and focus for the year set out in the Group's regulatory compliance plan which is considered and approved by the Governance, Conduct & Remuneration Committee.

By order of the Board

Lorna Youssouf

Lorna Youssouf
For and on behalf of Roysun Limited
Secretary
Approved by the board of directors on 23 March 2022

Directors

The names of the current directors are listed on page 1. From 1 January 2021 to date the following changes have taken place:

Director	Appointed	Resigned
Charlotte Jones	10 September 2021	
Louisa Leonard	1 June 2021	
Paul Dilley	1 June 2021	
Steven Watson	9 December 2021	
Jane Poole		15 February 2021
Robin Gibbs		31 December 2021
William McDonnell		1 June 2021
Nathan Williams		1 June 2021

Charlotte Jones will step down from the Board on 31 March 2022. Ken Anderson will join the Board effective from 1 April 2022.

Directors' responsibilities

The directors' responsibilities statement appears on page 7 and is incorporated by reference into this report.

None of the directors have any interest in the shares of the Company.

Dividends

No interim dividends were paid during the year (2020: £nil). The directors do not recommend payment of a final dividend in respect of the year ended 31 December 2021 (2020: £nil).

Information included within the Strategic report

Information relating to the financial risk management and the likely future developments of the Company is contained within the strategic report on pages 2 to 4 and is incorporated into this report by reference.

Political donations

The Company did not make any political donations during the financial year (2020: £nil).

Disclosure of information to auditor

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all reasonable steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information, and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Under the Companies Act 2006, the Company is not required to hold an Annual General Meeting and accordingly KPMG LLP will be deemed to be re-appointed for each succeeding financial year.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Directors' Indemnity

Article 82 and 83 of the Articles of Association provides that, among other things and insofar as permitted by law, the Company may indemnify its directors against any liability and may purchase and maintain insurance against any liability. The directors and officers of the Company also have the benefit of Directors & Officers insurance which provides cover in respect of legal actions brought against them.

Post Balance Sheet Events

Post balance sheet events are set out in note 19 on page 29 of the Accounts.

Going concern

The Board has made an assessment of going concern covering a period of at least 12 months from the date of approval of these financial statements. The Board's assessment included the review of the Company's strategic plans and updated forecasts, capital position, liquidity including credit facilities and investment portfolio, which are based on the Company continuing to operate and reflects the Company's assessment of the impact of the current challenging economic environment. The Board have also specifically considered, in respect of reinsurance arrangements, the credit worthiness and going concern status of reinsurance providers, recognising the 100% reinsurance cover taken out by the Company with its parent company. The parent company's going concern assessment included a range of stress and scenario testing which incorporated a number of severe but plausible downsides, including a market risk shock and deterioration of the underwriting result as a result of the current challenging economic environment.

Based on this review no material uncertainties that would require disclosure have been identified in relation to the ability of the Company to remain a going concern for at least the next twelve months, from both the date of the balance sheet and the approval of the financial statements.

Signed by order of the Board

Lorna Youssouf

Lorna Youssouf
For and on behalf of Roysun Limited
Secretary

Approved by the board of directors on 23 March 2022

Statement of directors' responsibilities in respect of the Annual report and the Financial Statements

The directors are responsible for preparing the strategic report, directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law, including *FRS 101 Reduced Disclosure Framework*.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

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

Independent auditors' report to the members of Royal & Sun Alliance Reinsurance Limtied

1 Our opinion is unmodified

We have audited the financial statements of Royal & Sun Alliance Reinsurance Limited ("the Company") for the year ended 31 December 2021 which comprise the Balance Sheet, the Profit and Loss Account, Statement of Comprehensive Income, the Statement of Changes in Equity, and the related notes, including the accounting policies in note 3.

In our opinion the financial statements:

- give a true and fair view of the state of Company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

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

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matter (unchanged from 2020) in arriving at our audit opinion above, together with our key audit procedures to address that matter and, as required for public interest entities, our results from those procedures. This matter was addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on this matter.

Valuation of incurred but not reported claims outstanding (2021: £71.7 million (Gross); 2020: £63.6 million (Gross)) Risk vs 2020 ▼ *Refer to page 20 (accounting policy) and page 29 (financial disclosures)*	
The risk	**Our response**
Subjective valuation Valuation of incurred but not reported claims outstanding is highly judgemental because it requires a number of assumptions to be made, with high estimation uncertainty, such as loss ratios, estimates of the frequency and severity of claims, assumptions over claims inflation and, where appropriate, the discount rates for longer tail classes of business by territory and line of business, but also arising from the assumptions within the development factors used in the chain ladder reserving method. The determination and application of the methodologies are also complex. Certain lines of business have greater inherent uncertainty, for example those where claims emerge more slowly over time, or where there is greater potential exposure to large losses due to the effect of uncertain or unknown future events. However, the estimation uncertainty in the valuation has reduced during 2021 as the exposure of the Company to business interruption claims has become clearer and the claims development patterns relating to COVID-19 related matters have become more established. The effect of these matters is that, as part of our risk assessment, we have determined that the valuation of incurred but not reported claims outstanding has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole and possibly many times that amount. **Completeness and accuracy of data**	With the assistance of our own actuarial specialists, our procedures included: - **Independent re-performance:** We performed independent re-projections of the gross incurred but not reported reserve balance, using our own models and investigated any differences that arose. We also considered the sensitivity of the incurred but not reported claims outstanding balance by considering alternative claims inflation assumptions. - **Our sector experience and benchmarking assumptions:** We applied our industry experience and market benchmarks to support our consideration and challenge of the Company's reserving methodology, key judgements and assumptions for the most significant and subjective classes of business. - **Tests of details:** We reconciled the claims data recorded in the policy administration systems and the data used in the actuarial reserving calculations to ensure the integrity of the data used in our actuarial reserving process. We agreed key data fields used within the actuarial reserving calculations, for example claim date, line of business and claims paid value, to appropriate documentation, for example policy documents, claims notifications or bank statements. We compared samples of claims case reserves to appropriate documentation, such as reports from loss adjusters, in order to test the valuation of individual claims reserves.

The valuation of incurred but not reported claims outstanding depends on complete and accurate data about the volume, amount, and pattern of current and historical claims since they are often used to form expectations about incurred. If the data used in calculating incurred but not reported claims outstanding, or for forming judgements over key assumptions, is not complete or accurate then material impacts on the valuation of incurred but not reported claims outstanding may arise.	This covered the accuracy of the relevant policy data elements relied upon within the actuarial process. We performed the tests above over the valuation of incurred but not reported claims outstanding rather than seeking to rely on the Company's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. **Our results** We found the valuation of incurred but not reported claims outstanding to be acceptable (2020 result: acceptable).

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

Materiality for the financial statements was set at £5.2m (2020: £4.9m), determined with reference to a benchmark of total assets (of which it represents 0.94% (2020: 0.82%)).

We consider total assets to be the most appropriate benchmark as gross written premiums and earned premiums are 100% reinsured and therefore the profit or loss of the Company does not represent the overall activity or size of the Company.

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

Performance materiality was set at 65% (2020: 65%) of materiality for the financial statements, which equates to £3.4m (2020: £3.2m). We applied this percentage in our determination of performance materiality based on the level of identified control deficiencies during the prior period.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £260k (2020: £245k), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the company was undertaken to the materiality level specified above. All audit procedures were performed remotely including using video and telephone conference meetings.

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

4 Going concern

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

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

We considered whether these risks could plausibly affect the liquidity in the going concern period by comparing severe, but plausible downside scenarios that could arise from these risks individually and collectively against the level of available financial resources indicated by the Company's financial forecasts.

Our procedures also included:

- Consideration of specific scenarios that could reasonably arise in relation to the risk of failure of reinsurance counterparties and assessing the assumptions applied by management in relation to these scenarios.

We assessed the completeness of the going concern disclosure.

Our conclusions based on this work:

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

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

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

Identifying and responding to risks of material misstatement due to fraud

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

- Enquiring of directors, the Audit Committee, internal audit, and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected, or alleged fraud.
- Reading Board, Audit Committee, Group Audit Committee and Group Risk Committee minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates such as the valuation of claims outstanding. On this audit we do not believe there is a fraud risk related to revenue recognition because all gross written premium is fully reinsured to other group companies.

We also identified a fraud risk related to the valuation of claims outstanding in response to the level of estimation uncertainty and judgement in these balances and as changes in the valuation of the claims outstanding directly impact profit this provides an opportunity for management to alter the financial results of the Company. Further detail in respect of the valuation of claims outstanding is set out in the key audit matter disclosures in section 2 of this report.

We performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to unusual account combinations.
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

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

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

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

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

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

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

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

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

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

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

6 We have nothing to report on the strategic report and the directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

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

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

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

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

We have nothing to report in these respects.

8 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 7, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

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

Andrew Jones

Andrew Jones (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square
London
E14 5GL
24 March 2022

Royal & Sun Alliance Reinsurance Limited

Profit and Loss Account

for the year ended 31 December 2021

Technical account – General business	Notes	2021 £000	2020 £000
Gross premiums written	6	329,476	331,194
Outward reinsurance premiums		(329,476)	(321,704)
Premiums written, net of reinsurance		-	9,490
Change in the gross provision for unearned premiums		7,603	3,868
Change in provision for unearned premiums, reinsurers' share		(7,603)	(3,868)
Earned premiums, net of reinsurance		-	9,490
Claims paid			
Gross amount		(140,972)	(186,361)
Reinsurers' share		140,972	176,447
		-	(9,914)
Change in the provision for claims			
Gross amount		(10,160)	(17,905)
Reinsurers' share		10,160	17,905
		-	-
Claims incurred, net of reinsurance		-	(9,914)
Reinsurance commissions and net acquisition costs		886	1,304
Net operating expenses		886	1,304
Balance on the technical account for general business	6	886	880

Non-technical account	Notes	2021 £000	2020 £000
Balance on the technical account for general business		886	880
Investment income	9	1,217	1,166
Realised losses on investments		-	(103)
Unrealised gains on investments		63	-
Investment expenses, charges and interest		(3)	(3)
Foreign exchange gains/(losses)		658	(487)
Profit on ordinary activities before tax		2,821	1,453
Taxation on profit on ordinary activities	12	(483)	(308)
Profit for the financial year		2,338	1,145

Royal & Sun Alliance Reinsurance Limited

Statement of Comprehensive Income

for the year ended 31 December 2021

	Notes	2021 £000	2020 £000
Profit for the financial year		**2,338**	1,145
Items that will be reclassified to profit or loss when specific conditions are met:			
Unrealised (losses)/gains on other financial instruments classified as available for sale net of tax		**(1,602)**	1,495
Total comprehensive income for the year		**736**	2,640

The attached notes on pages 17 to 30 form an integral part of these financial statements.

Royal & Sun Alliance Reinsurance Limited

Statement of Changes in Equity

for the year ended 31 December 2021

	Called up share capital	Available for sale reserve	Profit and loss account	Shareholder's funds
	£000	£000	£000	£000
Balance at 1 January 2020	70,000	(137)	3,659	73,522
Profit for the financial year	-	-	1,145	1,145
Other comprehensive income	-	1,495	-	1,495
Total comprehensive income for the year	-	1,495	1,145	2,640
Balance at 31 December 2020	70,000	1,358	4,804	76,162
Profit for the financial year	**-**	**-**	**2,338**	**2,338**
Other comprehensive expense	**-**	**(1,602)**	**-**	**(1,602)**
Total comprehensive (expense)/income for the year	**-**	**(1,602)**	**2,338**	**736**
Balance at 31 December 2021	**70,000**	**(244)**	**7,142**	**76,898**

The attached notes on pages 17 to 30 form an integral part of these financial statements.

Registered Number: 00100097
Royal & Sun Alliance Reinsurance Limited

Balance Sheet

as at year ended 31 December 2021

Assets	Notes	2021 £000	2020 £000
Other financial investments			
Debt securities and other fixed income securities	13	89,292	58,146
Reinsurers' share of technical provisions			
Provision for unearned premiums	14	65,247	74,874
Claims outstanding	15	400,982	399,473
		466,229	474,347
Debtors			
Debtors arising out of reinsurance operations		23,026	29,666
Amounts owed by group undertakings		-	29,706
Other debtors (including deferred taxation)		76	-
		23,102	59,372
Other assets			
Cash at bank and in hand		97	12
Prepayments and accrued income			
Accrued interest and rent		391	305
Deferred acquisition costs		6,590	7,621
		6,981	7,926
Total assets		585,701	599,803

Liabilities	Notes	2021 £000	2020 £000
Capital and reserves			
Called up share capital	17	**70,000**	70,000
Available for sale reserve		**(244)**	1,358
Profit and loss account		**7,142**	4,804
		76,898	76,162
Technical provisions			
Provision for unearned premiums		**65,247**	74,874
Claims outstanding		**400,982**	399,473
		466,229	474,347
Creditors			
Creditors arising out of reinsurance operations		**10,053**	6,152
Amounts owed to group undertakings		**25,449**	34,894
Other creditors (including current taxation)		**482**	627
		35,984	41,673
Accruals and deferred income			
Reinsurers' share of deferred acquisition costs		**6,590**	7,621
Total liabilities		**585,701**	599,803

The attached notes on pages 17 to 30 form an integral part of these financial statements.

The financial statements were approved on 23 March 2022 by the Board of Directors and are signed on its behalf by:

Charlotte Jones

Director

Charlotte Jones

1. Basis of preparation

The Company is a private, wholly owned subsidiary of Royal & Sun Alliance Insurance Limited and is incorporated and domiciled in the UK. The Company's ultimate parent company and controlling party is Intact Financial Corporation. At a local level, the Company is a member of the RSA Group, which is registered in England and Wales and is the smallest group to consolidate these financial statements.

The RSA Group has prepared its consolidated financial statements in accordance with UK-adopted International Accounting Standards (IAS) and the requirements of the Companies Act 2006.

These financial statements have been prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101) Reduced Disclosure Framework and in compliance with the Companies Act 2006. The financial statements are prepared on a historical cost basis. Where other bases are applied, these are identified in the relevant accounting policy.

These financial statements have been prepared on a going concern basis. In considering the appropriateness of the going concern basis, the Board has made an assessment of going concern covering a period of at least 12 months from the date of approval of these financial statements. The Board's assessment included the review of the Company's strategic plans and updated forecasts, capital position, liquidity including credit facilities and investment portfolio, which are based on the Company continuing to operate and reflects the Company's assessment of the impact of the current challenging economic environment. The Board have also specifically considered, in respect of reinsurance arrangements, the credit worthiness and going concern status of reinsurance providers, recognising the 100% reinsurance cover taken out by the Company with its parent company. The parent company's going concern assessment included a range of stress and scenario testing which incorporated a number of severe but plausible downsides, including a market risk shock and deterioration of the underwriting result as a result of the current challenging economic environment.

The Company's financial statements are presented in pound sterling (£), which is also the Company's functional currency and rounded to the nearest thousand (k) except where otherwise indicated.

In preparing the financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the UK ('Adopted IFRS') but makes amendments where necessary in order to comply with Companies Act 2006. The Company has set out below where advantage of FRS 101 exemptions has been taken.

The exemptions used by the Company are as follows:

- Cash Flow Statement and related notes;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of key management personnel; and
- Disclosures in respect of transactions between two or more wholly owned subsidiaries of the Group

2. Adoption of new and revised standards

There are a small number of narrow scope amendments to standards that are applicable to the Company for the first time in 2021, none of which have had a significant impact on the financial statements.

Transition from EU-adopted IAS to UK-adopted IAS

Following the end of the Brexit Transition Period, SI 2019/685 brought the International Accounting Standards (IAS) already endorsed in the EU into UK law as 'UK-adopted international accounting standards'. The Company has applied UK-adopted IAS recognition, measurement and disclosure requirements from 1 January 2021. As there are no changes when applying UK-adopted IAS, there has not been an impact on the Company with the exception of the following narrow scope amendment:

Extension of the Temporary Exemption from Applying IFRS 9

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

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

Other standards

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

As set out above, the Company takes advantage of the FRS 101 exemption for disclosure of the effects of new but not yet effective IFRSs.

3. Selection of significant accounting policies

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

The Company has not made any significant changes to its accounting policies during 2021.

(i) Translation of foreign currencies

Foreign currency transactions are translated into the functional currency of the Company's business operations using the exchange rates prevailing at the time of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

(ii) Financial instruments

Classification and measurement of financial assets and financial liabilities

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

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

- Designated at fair value through profit and loss (FVTPL):
- Available for sale (AFS);
- Cash and cash equivalents
- Loans and receivables; or
- Financial liabilities.

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

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

Category	Financial instrument	Description	Subsequent measurement	Recognition of change in fair value
Available for sale (AFS)	Debt securities, equity securities	Where the investment return on equity or debt securities is managed on the basis of the periodic cash flows arising from the investment	Fair value using prices at the end of the period	Other comprehensive income - unrealised gains/(losses) Profit & loss account – cumulative realised gains/(losses) when derecognised; Investment expenses, charges and interest when impaired
Cash at bank and in hand	Cash and cash equivalents	Consist of cash and highly liquid investments that are subject to insignificant changes in value and are readily convertible into known amounts of cash	Carrying amounts at amortised cost	

Investment income

Interest income is recognised in the profit and loss account using the effective interest rate method.

Impairment of financial instruments

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

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

If the fair value of a previously impaired debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed and the reversal recognised in the profit and loss account.

IFRS 9 'Financial Instruments'

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

The Company meets the criteria and has elected to defer the application of IFRS 9 to the reporting period beginning on 1 January 2023, alongside IFRS 17. Further information can be found in note 13.

(iii) Insurance contracts

Product classification

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk is transferred when the Company agrees to compensate a policyholder if a specified uncertain future event (other than a change in financial variable) adversely affects the policyholder. Any contracts not meeting the definition of an insurance contract under IFRS are classified as investment contracts or derivative contracts, as appropriate.

Premium income

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

Insurance debtors

Premium debtors due from policyholders or intermediaries at the end of the reporting period are presented within debtors arising out of direct insurance operations (policyholders) and debtors arising out of direct insurance operations (intermediaries) in the balance sheet. The amount recoverable is reduced when there is an event arising after the initial recognition that provides objective evidence that the Company may not receive all amounts due under the insurance contract. Impairment losses for non-recoverable amounts are charged to operating expenses in the profit and loss account and directly reduce the carrying amount of insurance debtors in the balance sheet.

Technical provisions

The provision for unearned premium represents the portion of the premiums written relating to the periods of insurance coverage subsequent to the end of the reporting period after the deduction of related acquisition costs.

Claims incurred represent the cost of agreeing and settling insurance claims on insurance contracts underwritten by Company, net of reinsurance recoveries. Claims outstanding are recognised at the estimated ultimate cost, net of expected salvage and subrogation recoveries when a claim is incurred.
Gross claims outstanding and related reinsurance recoveries are discounted where there is a long period from incident to claims settlement or when nominal interest rates are high and where there exists a suitable claims payment pattern from which to calculate the discount. In defining those claims with a long period from incident to claims settlement, an average period settlement of six years or more has been used as a guide. The discount rate used is based upon an investment return expected to be earned by financial assets which are appropriate in value and duration to match the claims outstanding being discounted during the period expected before the final settlement of such claims.

Differences between the estimated cost and subsequent settlement of claims or re-estimated costs are recognised in the profit and loss account in the year in which they are settled or in which the claims outstanding are re-estimated.

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

At the end of each reporting period liability tests are performed to ensure the adequacy of the technical provisions by considering the cash flows associated with the provision for unearned premium net of related DAC. In performing these tests, best estimates of future contractual cash flows, including loss adjustment and administrative expenses as well as investment income on financial assets backing such liabilities are used. Any deficiency is charged to the technical account immediately by establishing a provision for liability adequacy (the unexpired risk provision). The unexpired risk provision is assessed in aggregate for business classes which, in the opinion of the directors, are managed together.

Reinsurance ceded

Premiums payable in respect of reinsurance ceded are recognised in the period in which the reinsurance contract is entered into and include estimates where the amounts are not finalised at the end of the reporting period. The ceded written premiums are recognised in the profit and loss account over the period of the reinsurance contract, based on the expected earning pattern in relation to the underlying insurance contract(s).

Reinsurers' share of technical provisions includes the reinsurers' share of claims outstanding and the provision for unearned premiums. The Company reports third party reinsurance balances on the balance sheet on a gross basis to present the exposure to credit risk related to third party reinsurance. The amount recoverable is reduced when there is an event arising after the initial recognition that provides objective evidence that the Company may not receive all amounts due under the reinsurance contract.

(iv) Taxation and deferred tax

Taxation and deferred tax are recognised in the profit and loss account, except to the extent that the tax arises from a transaction or event recognised either in other comprehensive income or directly in equity.

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

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

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

(v) Portfolio transfers

Premium portfolio transfers to other insurance entities are treated as premium cancellations with an accompanying unwind of the provision for unearned premium through the profit and loss account to recognise that the Company is no longer legally on risk for providing cover in future periods and therefore will not earn any future income in respect of the insurance contracts transferred.

Claims portfolio transfers to other insurance entities are treated as settlement of claims outstanding which recognises that the Company has provided consideration under the terms of the transfer as a consequence of which it no longer has a legal obligation to settle claims in respect of the insurance contracts transferred which are de-recognised.

(vi) Current and non-current distinction

Assets are classified as current when expected to be realised within the Company's normal operating cycle of one year. Liabilities are classified as current when expected to be settled within the Company's normal operating cycle of one year. All other assets and liabilities are classified as non-current.

The Company's balance sheet is not presented using current and non-current classifications. However, the following balances are generally classified as current: cash at bank and in hand, debtors arising out of reinsurance operations, creditors arising out of reinsurance operations, amounts owed to group undertakings, accruals and deferred income and accrued interest and rent.

The following balances are generally classified as non-current: deferred taxation.
The remaining balances are of a mixed nature. The non-current portions of such balances are set out in the respective notes, the risk management note 5 and note 24.

4. Critical judgements and major sources of estimation uncertainty

In preparing these financial statements, management has made judgements in determining estimates in accordance with the Company's accounting policies. Estimates are based on management's best knowledge of current circumstances and expectation of future events and actions, which may subsequently differ from those used in determining the accounting estimates.

Estimates and their underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The most significant estimates are set out below, including the impact of Covid-19 where applicable.

(i) Valuation of claims outstanding

The Company makes judgements when determining the assumptions used in the estimation of the eventual outcome of the claim events that have occurred but remain unsettled at the end of the reporting period. The methodology of measuring gross claims outstanding is described below.

Provisions for gross losses and loss adjustment expenses are subject to a robust reserving process by the Company and at Group Corporate Centre, as detailed in the Risk Management note below.

There is also considerable uncertainty in regard to the eventual outcome of the gross 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 Company 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 Company 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 Company uses a number of commonly accepted actuarial projection methodologies to determine the appropriate provision to recognise. These include methods based upon the following:

- Historic claims development trends are assessed and used to inform extrapolation of the latest payments and reported claims cost for each prior period to their ultimate value;
- Estimates based upon a projection of claims numbers and average cost;
- Notified claims development, where notified claims to date for each year are extrapolated based upon observed development of earlier years;
- Expected loss ratios;
- Bornhuetter-Ferguson method, which combines features of the above methods; and
- Bespoke methods for specialist classes of business.

In selecting the method and estimate appropriate to any one class of insurance business, the Company considers the appropriateness of the methods and bases to the individual circumstances of the class and accident period or underwriting year. A key assumption that is common to many classes of business is that historic experience is a good guide to what the Company can expect to see in the future. This depends on a variety of things such as consistent claims handling practice and mix of business, which the Company test as part of its analytic process to ensure assumptions are reasonable.

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

All gross claims are 100% reinsured, so at a net level they are more certain. The net provision considers the security of the reinsurers and potential exhaustion of the reinsurance cover. The 2020 result included a novation of existing Chile reserves which is outside of the normal reinsurance transactions. See note 22.

The level of provision carried by the Company targets the actuarial methodologies outlined above.

Claims outstanding estimates are currently subject to heightened uncertainty due to features created by Covid/Brexit/economic related distortion, increased market uncertainty and delays in external updates. Additionally, there is a potential indirect Covid impact which includes the effect of Omicron in December. This could include staffing shortages which potentially cause delay in claims notifications or updates and could be both internally and externally driven. The external part being highly uncertain given the disruption is so close to year end. New claims could exhibit different characteristics to those normally observed and open claims from prior periods before the pandemic are also impacted by changing circumstances during the claim settlement period. Assumptions have been made in key areas in order to estimate the ultimate cost of claims, such as:

- Severity, based on different average claims costs observed during the year
- Claims development patterns, taking into account both internal operations and external impacts

The heightened level of uncertainty around the estimates of ultimate claim costs will persist for some time.

5. Risk management

Introduction

RSA Insurance Group Limited, of which the Company is an important part, is managed along divisional lines. The Company provides certain reinsurance functions for the RSA Insurance Group Limited offices and Global partners. The directors of the Company have previously considered whether the RSA Group's approach to strategy, risk management, performance review and custody of assets fully meets the needs of the Company as a separate regulated entity. They have concluded that it does. The following discussion sets out the approach of the RSA Group, and hence of the Company, to risk management.

Financial risk

Financial risk refers to the risk of financial loss predominantly arising from investment transactions entered into by the company and includes the following risks:

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

Reinsurance credit risk

The Company is exposed to disputes on, and defects in, contracts with its reinsurers and the possibility of default by its reinsurers. The Company is also exposed to the credit risk assumed in fronting arrangements and to potential reinsurance capacity constraints. In selecting the reinsurers with whom the Company conducts business its strategy is to seek reinsurers with the best combination of financial strength, price and capacity. The Group Corporate Centre publishes internally a list of authorised reinsurers who pass the Company's selection process and which its operations may use for new transactions.

The Company monitors the financial strength of its reinsurers, including those to whom risks are no longer ceded. All reinsurers are AA rated (or above) and monitored quarterly. Allowance is made in the financial position for non-recoverability due to reinsurer default by requiring operations to provide, in line with Company standards, having regard to companies on the Company's 'Watch List'. The 'Watch List' is the list of companies whom the directors believe will not be able to pay amounts due to the Company in full.

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 Company. The company ensures assets are closely match in duration and currency with insurance liabilities to hedge volatility.

The Company is exposed to credit and concentrations of risk with individual network partners, due to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable credit ratings. The reinsurance strategy is to purchase reinsurance in the most effective manner from reinsurers who meet the Company's security standards. Reinsurance counterparties are subject to a rigorous internal assessment process on an ongoing basis to ensure that their creditworthiness continues to be satisfactory and the potential impact from reinsurer default is measured regularly and managed accordingly. The Intact Reinsurance Credit Committee oversees the management of these risks. Company 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 Company's authorised list of approved reinsurers unless the Company's internal review identifies exceptional circumstances in favour of the reinsurer. Collateral is taken, where appropriate, to mitigate exposures to acceptable levels.

The Company regularly monitors its aggregate exposures by reinsurer company against predetermined reinsurer company limits, in accordance with the methodology agreed by the Board Risk Committee (BRC). The Company's largest reinsurance exposures are both with RSAI and Strategic Network Partners, which are given annual approval by the RSA Group Board.

Credit risk for intercompany balances is managed through a credit risk insurance policy which the Company has with RSAI Limited. As a consequence of this credit risk agreement the Company has no credit risk with Global Network as it is passed to RSAI Limited. A financial risk assessment is completed annually for all third party counterparties which is presented to GRCC (Group Reinsurance Credit Committee). All transactions are managed within credit limits set by Group.

The Company is responsible for assessing and monitoring the creditworthiness of their counterparties (e.g. reinsurers). The Intact Group credit committee is responsible for ensuring these exposures are within its risk appetite. Exposure monitoring and reporting is embedded throughout the organisation with aggregate credit positions reported and monitored at Group level.

The Company'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 Company's investment managers as to the level of exposure to various rating categories including unrated securities.

The credit profile of the Company'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 Company's aggregated credit risk exposure for its financial and insurance assets.

	Credit rating relating to financial assets that are neither past due nor impaired						
As at 31 December 2021	**AAA £000**	**AA £000**	**A £000**	**BBB £000**	**<BBB £000**	**Not rated £000**	**Total financial assets that are neither past due nor impaired £000**
Debt securities and other fixed income securities	**38,455**	**14,755**	**30,415**	**5,667**	**-**	**-**	**89,292**
Of which would qualify for SPPI under IFRS[1]	***38,455***	***14,755***	***30,415***	***5,667***	***-***	***-***	***89,292***
Reinsurers' share of technical provisions	**-**	**156,196**	**302,278**	**2,451**	**4,934**	**370**	**466,229**
Reinsurance debtors[2]	**-**	**546**	**8,449**	**-**	**1,524**	**4,056**	**14,575**
Cash at bank and in hand	**-**	**97**	**-**	**-**	**-**	**-**	**97**

Notes:

1. The debt securities meeting solely for payment of principal and interest (SPPI) criteria under IFRS 9 which are below investment grade are stated under IAS 39 at fair value and where loans and receivables are measured using amortised cost their carrying amounts are considered to be as approximate fair values.
2. The reinsurance debtors classified as not rated comprise global partners that do not have individual credit ratings. The overall risk to the Company is deemed to be low as the cover could be cancelled if payments were not received on a timely basis.

	Credit rating relating to financial assets that are neither past due nor impaired						
As at 31 December 2020	AAA £000	AA £000	A £000	BBB £000	<BBB £000	Not rated £000	Total financial assets that are neither past due nor impaired £000
Debt securities and other fixed income securities	17,721	7,421	29,855	3,149	-	-	58,146
Of which would qualify for SPPI under IFRS[1]	17,721	7,421	29,855	3,149	-	-	58,146
Reinsurers' share of technical provisions	-	3,512	459,007	11,525	-	303	474,347
Reinsurance debtors[2]	-	12	11,219	2,707	-	4,939	18,877
Cash at bank and in hand	-	-	12	-	-	-	12

Notes:

1. The debt securities meeting SPPI criteria under IFRS 9 which are below investment grade are stated under IAS 39 at fair value and where loans and receivables are measured using amortised cost their carrying amounts are considered to be as approximate fair values.
2. The reinsurance debtors classified as not rated comprise global partners that do not have individual credit ratings. The overall risk to the Company is deemed to be low as the cover could be cancelled if payments were not received on a timely basis.

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 31 December 2021 and 2020, excluding those assets that have been held for sale.

		Financial assets that are past due but not impaired						
As at 31 December 2021	**Neither past due nor impaired £000**	**Up to three months £000**	**Three to six months £000**	**Six months to one year £000**	**Greater than one year £000**	**Financial assets that have been impaired £000**	**Carrying value in the balance sheet £000**	**Impairment losses charged to income statement £000**
Debt securities and other fixed income securities	**89,292**	**-**	**-**	**-**	**-**	**-**	**89,292**	**-**
Reinsurers' share of technical provisions	**466,229**	**-**	**-**	**-**	**-**	**-**	**466,229**	**-**
Reinsurance debtors	**14,575**	**1,899**	**2,310**	**2,979**	**1,263**	**-**	**23,026**	**-**
Cash at bank and in hand	**97**	**-**	**-**	**-**	**-**	**-**	**97**	**-**

Notes:

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

As at 31 December 2020	Neither past due nor impaired £000	Financial assets that are past due but not impaired: Up to three months £000	Three to six months £000	Six months to one year £000	Greater than one year £000	Financial assets that have been impaired £000	Carrying value in the balance sheet £000	Impairment losses charged to income statement £000
Debt securities and other fixed income securities	58,146	-	-	-	-	-	58,146	-
Reinsurers' share of technical provisions	474,347	-	-	-	-	-	474,347	-
Reinsurance debtors	18,877	2,799	4,536	1,851	1,603	-	29,666	-
Cash at bank and in hand	12	-	-	-	-	-	12	-

Notes:
[1] Debtors with similar credit risk characteristics are collectively assessed for impairment with provisions being made based on past experience

Market risk

Market risk is the risk of adverse financial impact resulting, directly or indirectly, from fluctuations of interest rates and foreign currency exchange rates. Market risk arises in our operations due to the possibility that fluctuations in the value of liabilities are not offset by fluctuations in the value of investments held. Market risk is subject to the BRC risk management framework, which is subject to review and approval by the Board.

Sensitivity Analysis

The Company uses a number of sensitivity or stress-test based risk management tools to understand the impact of the above risks on earnings and capital in both normal and stressed conditions.

Market risk can be broken down into the following key components:

(i) Interest rate risk

The Company 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.

Interest rate risk arises primarily from the Company's investments in long-term debt and fixed income securities and their movement relative to the value placed on insurance liabilities. This impacts 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 Company's investments as at 31 December 2021, the table below illustrates the impact to the profit and loss account and other comprehensive income of a hypothetical 100bps change in interest rates on fixed income securities that are subject to interest rate risk.

	Increase in profit and loss account		Decrease in other comprehensive income	
	2021	2020	**2021**	2020
	£000	£000	**£000**	£000
Increase in interest rate markets:				
Impact on fixed income securities of increase in interest rates of 100bps	-	-	2,324	1,590

The sensitivity of the fixed interest securities of the Company 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 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.

(ii) Currency risk

The non-investment foreign exchange currency risk resides with Royal & Sun Alliance Insurance Limited. Whereas the exchange risk relating to securities held in foreign currency resides with the Company.

The table below illustrates the impact of a hypothetical 10% change in Pounds Sterling against the three most used currencies Euro, Canadian Dollar and US Dollar on shareholders' funds as at 31 December.

	Strengthening against Euro £000	Weakening against Euro £000	Strengthening against Canadian Dollar £000	Weakening against Canadian Dollar £000	Strengthening against United States Dollar £000	Weakening against United States Dollar £000
2021	**(112)**	**137**	**3,321**	**(4,059)**	**329**	**(403)**
2020	(1,497)	1,830	3,184	(3,891)	671	(820)

Liquidity Risk

Liquidity risk refers to the risk of loss to the Company 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 Company 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 Company's operational requirements based on actuarial assessment and allowing for contingencies.

The following table summarises the contractual repricing or maturity dates (whichever is earlier) for financial liabilities that are subject to fixed and variable interest rates. Direct insurance creditors are also presented and are analysed by remaining duration until settlement.

As at 2021	**Less than one year £000**	**One to two years £000**	**Two to three years £000**	**Three to four years £000**	**Four to five years £000**	**Five to ten years £000**	**Total £000**	**Carrying value in the balance sheet £000**
Amounts owed to group undertakings	**25,449**	**-**	**-**	**-**	**-**	**-**	**25,449**	**25,449**
Claims outstanding	**191,151**	**111,575**	**44,741**	**22,352**	**11,957**	**19,206**	**400,982**	**400,982**
Reinsurance creditors	**10,174**	**(121)**	**-**	**-**	**-**	**-**	**10,053**	**10,053**
Other creditors	**515**	**(33)**	**-**	**-**	**-**	**-**	**482**	**482**
Total	**227,289**	**111,421**	**44,741**	**22,352**	**11,957**	**19,206**	**436,966**	**436,966**

As at 2020	Less than one year £000	One to two years £000	Two to three years £000	Three to four years £000	Four to five years £000	Five to ten years £000	Total £000	Carrying value in the balance sheet £000
Amounts owed to group undertakings	34,894	-	-	-	-	-	34,894	34,894
Claims outstanding	193,153	111,938	42,376	19,143	15,801	17,062	399,473	399,473
Reinsurance creditors	6,152	-	-	-	-	-	6,152	6,152
Other creditors	310	317	-	-	-	-	627	627
Total	234,509	112,255	42,376	19,143	15,801	17,062	441,146	441,146

Capital Management

The Company is a wholly owned subsidiary of RSA Insurance Group Limited and is regulated by the Prudential Regulation Authority ('PRA') and Financial Conduct Authority ('FCA').

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

The Company's overall capital position is primarily comprised of shareholders' equity and aims to maximise shareholder value, while maintaining financial strength and maintaining adequate regulatory capital. In addition the Group and the Company also aims to hold sufficient capital so as to maintain its single 'A2' credit rating.

The Group's regulated entities hold appropriate levels of capital to satisfy applicable local regulations. Compliance with local regulatory requirements is embedded within the BRC mandate, for the protection of the Company's policyholders and the continuation of the Company's ability to underwrite.

Investments within the Company have been pledged as collateral to RSA Canada. This is required by local regulations as Royal & Sun Alliance Reinsurance Limited acts as a reinsurer on RSA Canada's Local Excess of Loss treaties and Global Network. The total amount pledged as collateral at 31 December 2021 was CAD $153,737k (2020: $102,024k).

Regulatory solvency position during 2021

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

At 31 December 2021, the Company's estimated SCR and corresponding Eligible Own Funds were as follows;

	Estimated (unaudited) 2021 £m	(unaudited) 2020 £m
Eligible Own Funds	**72**	72
SCR	**24**	19
Coverage (unrounded)	**301%**	368%

The Solvency and Financial Condition Report of the Group, which covers information on the solvency and financial condition of the Company, as required by Solvency II for the year ended 31 December 2021 will be publicly available in April 2022.

Shareholders' funds

The Company uses a variety of metrics to monitor its capital position including Shareholders' funds, which are £76,898k as at 31 December 2021 (2020: £76,162k).

Own Risk and Solvency Assessment (ORSA)

The Solvency II directive introduced a requirement for undertakings to conduct an ORSA. RSA received approval in April 2020 from the PRA to produce a single ORSA report covering the UK entities, including the Company. The approval is now in place until 2023 and it replaces the original approval received in 2016.

The Group defines its ORSA as a series of inter-related activities by which it establishes:

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

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

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

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

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

The ORSA report was delivered to the Board In November 2021, considering the H1 2021 balance sheet position and the impact of the 2022-24 operational plan on forecast capital positions. The report outlines the participation in the 2021 Bank of England Climate stress testing exercise, with an assessment of the climate-associated physical, litigation and asset risks. The ORSA process during this cycle continues to demonstrate ongoing balance sheet strength and balance sheet resilience

6. Segmental information

a) By business class

2021	**Marine, casualty & property treaties £000**	**Property Multi-national business £000**	**Liability Multi-national business £000**	**Engineering Multi-national business £000**	**Marine Multi-national business £000**	**Other Multi-national reinsurance business £000**	**Total £000**
Gross premiums written	**43,491**	**198,028**	**42,752**	**10,271**	**34,784**	**150**	**329,476**
Gross earned premiums	**43,509**	**198,316**	**41,770**	**18,902**	**34,425**	**157**	**337,079**
Gross claims incurred	**(47,948)**	**(39,455)**	**(38,685)**	**(6,845)**	**(18,097)**	**(102)**	**(151,132)**
Operating expenses	**(74)**	**(19,684)**	**(5,520)**	**(2,522)**	**(4,726)**	**(26)**	**(32,551)**
Gross technical result	**(4,513)**	**139,177**	**(2,435)**	**9,535**	**11,603**	**29**	**153,396**
Reinsurance balance	**5,399**	**(139,177)**	**2,435**	**(9,535)**	**(11,603)**	**(29)**	**(152,510)**
Net technical result	**886**	**-**	**-**	**-**	**-**	**-**	**886**

2020	Marine, casualty & property treaties £000	Property Multi-national business £000	Liability Multi-national business £000	Engineering Multi-national business £000	Marine Multi-national business £000	Other Multi-national reinsurance business £000	Total £000
Gross premiums written	44,376	181,046	41,185	22,230	30,782	11,575	331,194
Gross earned premiums	44,399	183,619	39,548	25,733	30,178	11,585	335,062
Gross claims incurred	(61,796)	(77,823)	2,725	(34,935)	(19,953)	(12,484)	(204,266)
Operating expenses	(170)	(19,107)	(5,452)	(2,565)	(3,420)	465	(30,249)
Gross technical result	(17,567)	86,689	36,821	(11,767)	6,805	(434)	100,547
Reinsurance balance	18,447	(86,689)	(36,821)	11,767	(6,805)	434	(99,667)
Net technical result	880	-	-	-	-	-	880

b) By geographical segment

Gross premiums written

	2021 £000	2020 £000
UK	**129,257**	139,643
Other EEA	**108,562**	113,571
Canada	**58,195**	44,487
Chile	**17,264**	17,150
Far East and Australasia	**3,555**	4,196
Other	**12,643**	12,147
	329,476	331,194

Total commissions for direct insurance business accounted for by the Company during the year, amounted to £7,058k (2020: £5,943k).

7. Exchange rates

The rates of exchange used in these accounts in respect of the major overseas currency are;

	2021 Cumulative average	2021 End of period	2020 Cumulative average	2020 End of period
Euro	**1.16**	**1.19**	1.13	1.12
Canadian Dollar	**1.72**	**1.71**	1.72	1.74
United States Dollar	**1.37**	**1.35**	1.28	1.37

The non-technical account includes £658k of net gains (2020: £487k of net losses) on the retranslation of foreign currency items, into the functional currency of the Company.

8. Auditor's remuneration

Fees payable to KPMG LLP for the audit of the Company's accounts for the year ended 31 December 2021 were £63,097 (31 December 2020: £61,860) which were borne by the Company's parent company, Royal & Sun Alliance Insurance Limited.

9. Investment Income, expenses and charges

	2021 £000	2020 £000
Income from cash at bank and in hand	**-**	18
Investment income from debt and fixed income securities	**1,217**	1,148
	1,217	1,166

10. Directors' emoluments

The directors were either remunerated by Royal & Sun Alliance Insurance Limited, the Company's parent company, or by RSA Insurance Group Limited, for their services to the RSA Group as a whole. A small part of this remuneration, is for services carried out to Royal & Sun Alliance Reinsurance Limited.

The aggregate emoluments of the directors, including amounts paid for services to the Group, were as follows;	2021 £000	2020 £000
Salaries and bonuses	**3,698**	3,834
Allowances, benefits and other awards	**808**	312
	4,506	4,146

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

The emoluments of the highest paid director were;	2021 £000	2020 £000
Salaries, bonuses, allowances, benefits and other awards	**1,146**	1,162

The amounts paid to a pension scheme in respect of the highest paid directors' qualifying services during 2021 was £3,000 (2020: £4,010).

During 2021, retirement benefits accrued under defined benefit schemes for no directors (2020; no directors). During 2021, contributions of £8,396 (2020: £8,495) were made to Group defined contribution schemes during the year in respect of four directors (2020: three directors).

During 2021, two directors exercised share options (2020: one director) and four directors (2020: four directors) had share awards vesting under long term incentive schemes in respect of ordinary shares of the Company's ultimate parent company.

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

11. Employees and staff costs

The Company did not employ anyone during the period (2020: none). All administrative duties are performed by employees of Royal & Sun Alliance Insurance Limited at no cost to the Company (2020: £nil).

12. Taxation

The charge for taxation in the profit and loss account comprises:

	2021 £000	2020 £000
Current tax		
UK corporation tax	515	310
Adjustments in respect of prior periods	(34)	-
Deferred tax	2	(2)
Total current tax	483	308
Total tax charge	483	308

The UK corporation tax for the current year is based on a rate of 19.0% (2020: 19.0%)

Reconciliation of the total tax charge

The tax charge for the year is less than 19% (2020: more than 19%) due to the items set out in the reconciliation below.

	2021 £000	2020 £000
Profit on ordinary activities before tax	2,821	1,453
Tax at the UK rate of 19.0% (2020: 19.0%)	536	276
Factors affecting charge:		
Fiscal adjustments	(21)	17
Adjustments to tax charge in respect of previous periods	(32)	17
Movement in deferred tax asset not recognised	-	(2)
Total tax charge	483	308

The deferred income tax credit to each component of other comprehensive income is as follows:

	2021 £000	2020 £000
Fair value gains and losses	(1,997)	1,842
Deferred tax	395	(347)
Total (charge)/credit to other comprehensive income	(1,602)	1,495

The current tax credited to the other comprehensive income during the year is £nil. (2020: £nil). The deferred tax credit recognised in other comprehensive income is £395k (2020: tax charge £347k).

13. Financial assets

	2021 £000	2020 £000
Government securities	51,814	29,944
Corporate bonds	37,478	28,202
Total available for sale financial assets measured at fair value	89,292	58,146

IFRS9 'Financial Instruments'

The Company 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.

The fair value at 31 December 2021 and change during the year of debt securities 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 all other financial assets:

	SPPI debt securities £000	Other financial assets £000	Total £000
Fair value at 31 December 2020	58,146	-	58,146
Movement in year	31,146	-	31,146
Fair value at 31 December 2021	89,292	-	89,292

The fair value (losses)/gains of SPPI financial assets recognised in the Profit and Loss gross of any deferred tax effects during the year are £63k (2020: £(103)k). Fair value gains of SPPI financial assets recognised in other comprehensive income gross of any deferred tax effects is £1,933K (2020: £1,730k).

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 that are not based on observable market data (unobservable inputs).

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

The Company 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 Company 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 Company does not receive pricing information from an external provider for its financial investments. In such circumstances the Company calculates fair value which may be based on input parameters that are not based on observable market data. Unobservable inputs are based on assumptions that are neither supported by prices from observable current market transactions for the same instrument nor based on available market data. In these cases, judgment is required to establish fair values. 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 that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

Available for sale financial assets	**Fair value hierarchy**			
	Level 1	**Level 2**	**Level 3**	**Total**
2021	**£000**	**£000**	**£000**	**£000**
Financial assets	**38,167**	**51,125**	**-**	**89,292**
Total	**38,167**	**51,125**	**-**	**89,292**

	Fair value hierarchy			
	Level 1	Level 2	Level 3	Total
2020	£000	£000	£000	£000
Financial assets	17,721	40,425	-	58,146
Total	17,721	40,425	-	58,146

None of the Company's insurance liabilities are measured at fair value. There were no transfers between Level 1 and Level 2 during the year.

There are no financial assets or liabilities measured at fair value using Level 3 fair value measurements.

14. Reinsurers' share of provision for unearned premiums

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

	2021	2020
	£000	£000
Reinsurers' share of provisions for unearned premiums at 1 January	**74,875**	76,998
Premiums ceded to reinsurers	**329,476**	322,340
Portfolio transfer	**-**	(636)
	329,476	321,704
Reinsurers' share of premiums earned	**(337,079)**	(325,572)
Change in provision for unearned premiums, reinsurers' share	**(7,603)**	(3,868)
Exchange adjustment	**(2,025)**	1,744
Reinsurers' share of provisions for unearned premiums at 31 December	**65,247**	74,874

15. Reinsurers' share of provision for outstanding claims

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

	2021	2020
	£000	£000
Reinsurers' share of provisions for losses and loss adjustment expenses at 1 January	**399,473**	378,889
Reinsurers' share of total claims incurred	**151,132**	194,352
Portfolio transfer	**-**	(1,979)
Total reinsurance recoveries received	**(140,972)**	(174,468)
Exchange adjustment	**(8,651)**	2,679
Reinsurers' share of provisions for losses and loss adjustment expenses at 31 December	**400,982**	399,473

Reinsurers share of provisions for losses and loss adjustment expenses includes £71.7m (2020: £63.6m) relating to claims which have been incurred but not yet reported to the Company, and £329.2m (2020: £335.9m) relating to outstanding case reserves for known claims.

Loss development tables have not been disclosed in the notes to these financial statements, as in the view of the directors the Company substitutes insurance risk for reinsurer credit risk, predominantly through its reinsurance programme into Royal & Sun Alliance Insurance Limited.

16. Deferred tax

Deferred tax for the current year is based on a rate of 24.0% (2020: 19.0%)

The following are the major deferred tax assets/(liabilities) recognised by the Company and their movements during the year:

	2021 £000	2020 £000
Unrealised investments gains/(losses)	**76**	(319)
Accelerated capital allowances	**-**	2
Deferred tax asset/(liability)	**76**	(317)

	2021 £000	2020 £000
At 1 January	**(317)**	28
Amounts credited/(charged) to other comprehensive income	**479**	(347)
Effect of change in tax rates – other comprehensive income[1]	**(84)**	-
Amounts (charged)/credited to the profit and loss account	**(2)**	2
Deferred tax asset/(liability) as at 31 December	**76**	(317)

Notes:
[1]The effect of change in tax rates relates to the impact of the change in the UK deferred tax rate which has increased from 19% in 2020 to 24% in 2021. The reason for this increase is that from April 2023, the UK corporation tax rate will be 25%. As a result of this, the deferred tax rate has been calculated at 24% which is a blended rate reflecting the future periods during which the corporate tax rate will still be 19%.

At the end of the reporting period, the Company has other deferred tax reliefs of £15k (2020: £5k) for which no deferred tax asset is being recognised due to the unpredictability of future profit streams.

17. Share capital

	2021 £000	2020 £000
Allotted, issued and fully paid		
70,000,000 Ordinary shares at £1.00 each (2020: 70,000,000 Ordinary shares at £1.00 each)	**70,000**	70,000
	70,000	70,000

18. Parent companies

The Company's immediate parent company is Royal & Sun Alliance Insurance Limited, a company incorporated in England and Wales. Their registered address is St Mark's Court, Chart Way, Horsham, West Sussex, RH12 1XL.

The Company's ultimate parent company and controlling party is Intact Financial Corporation.

These financial statements are consolidated within the financial statements of RSA Insurance Group Limited. A copy of that Company's accounts can be obtained by writing to Group Secretariat, RSA Insurance Group Limited, 17th Floor, 20 Fenchurch Street, London EC3M 3AU.

19. Post Balance Sheet events

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

20. Provision for unearned premiums

The following changes have occurred in the provision for unearned premiums during the year:

	2021 £000	2020 £000
Provisions for unearned premiums at 1 January	**74,875**	76,998
Premiums written	**329,476**	335,759
Portfolio transfer	**-**	(4,565)
	329,476	331,194
Premiums earned	**(337,079)**	(335,062)
Change in provision for unearned premiums,	**(7,603)**	(3,868)
Exchange adjustment	**(2,025)**	1,744
Provisions for unearned premiums at 31 December	**65,247**	74,874

21. Provision for outstanding claims

The following changes have occurred in the provision for outstanding claims during the year:

	2021 £000	2020 £000
Provisions for losses and loss adjustment expenses at 1 January	**399,473**	378,889
Total claims incurred	**151,132**	204,266
Portfolio transfer	**-**	(11,893)
Claims payments	**(140,972)**	(174,468)
Exchange adjustment	**(8,651)**	2,679
Provisions for losses and loss adjustment expenses at 31 December	**400,982**	399,473

Insurers share of provisions for losses and loss adjustment expenses includes £71.7m (2020: £63.6m) relating to claims which have been incurred but not yet reported to the Company, and £329.2m (2020: £335.9m) relating to outstanding case reserves for known claims.

22. Portfolio transfer

During 2020 a novation was signed transferring all existing reserves relating to the Chile Servicing office from the Company to RSAI. RSAI now provide insurance to the Chile servicing office and reinsure this risk to the Company. The impact of the novation was that there was both a legal transfer of reserves to RSAI and also a reinsurance of risk from RSAI to the Company. There was no overall impact of this transaction on profit for the year, however there was an impact within individual line items in the 2020 profit and loss account with an increase in earned premiums of £9,490k representing premium for the reinsurance of risk from RSAI offset by claims incurred of £9,914k and net acquisition costs of £424k.

The impact of the Portfolio transfer is detailed below:

	Premium Earned £000	Claims Incurred £000	DAC £000	U/w £000
Gross	11,400	(11,893)	493	-
Reins	(1,910)	1,979	(69)	-
Net	9,490	(9,914)	424	-

23. Assets expected to be settled after more than 12 months

As disclosed in note 3, the Company has certain line items in the balance sheet with expected settlement periods across both less than 12 months and more than 12 months.

Amounts expected to be settled after more than 12 months for these asset line items are detailed as follows:

	2021 £000	2020 £000
Debt securities and other fixed income securities	85,477	52,250
Reinsurers' share of claims outstanding	209,831	206,320

24. Offsetting Financial Assets

Within the balance sheet there is offsetting of balances within debtors and creditors where the transactions form part of the same agreement. In addition balances due to and from Group undertakings are settled at a net level.
The following table presents information on the impact of the netting arrangements.

2021	Gross Amount £000	Amount offset £000	Net amount reported £000
Debtors arising from reinsurance operations	23,779	(753)	23,026
Amounts owed by Group undertakings	196,780	(196,780)	-

2021	Gross Amount £000	Amount offset £000	Net amount reported £000
Creditors arising out of reinsurance operations	10,509	(456)	10,053
Amounts owed to Group undertakings	222,229	(196,780)	25,449

2020	Gross Amount £000	Amount offset £000	Net amount reported £000
Debtors arising from reinsurance operations	29,950	(284)	29,666
Amounts owed by Group undertakings	196,035	(166,329)	29,706

2020	Gross Amount £000	Amount offset £000	Net amount reported £000
Creditors arising out of reinsurance operations	6,766	(614)	6,152
Amounts owed to Group undertakings	37,673	(2,779)	34,894