RSA

RSA Annual Report and Accounts 2014

RSA at a glance

OUR AMBITION

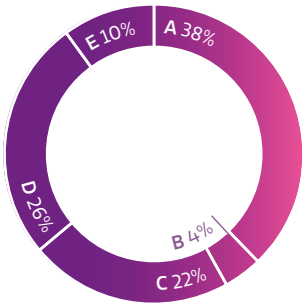
- To be a leading international general insurer focused on Northern developed markets, plus a growing business in Latin America.
- To compete only where we can win. And to win where we compete.
- To be well capitalised; Achieving sustainable attractive returns.
- Strong operational delivery. Transparent and easy to understand.
- Enduring customer appeal.

Winning for customers and winning for shareholders

OUR BUSINESS

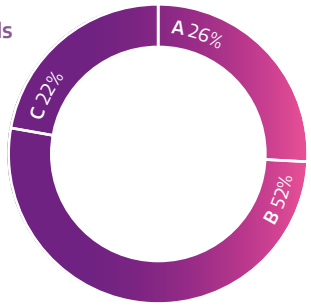
RSA by geography

A UK
B Ireland
C Canada
D Scandinavia
E Latin America



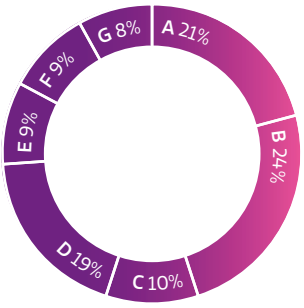
RSA's distribution channels

A Direct
B Broker
C Agent/affinity



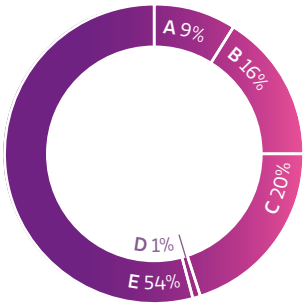
RSA product lines

A Personal Motor
B Household
C Personal other
D Commercial Property
E Commercial Motor
F Liability
G Marine and other



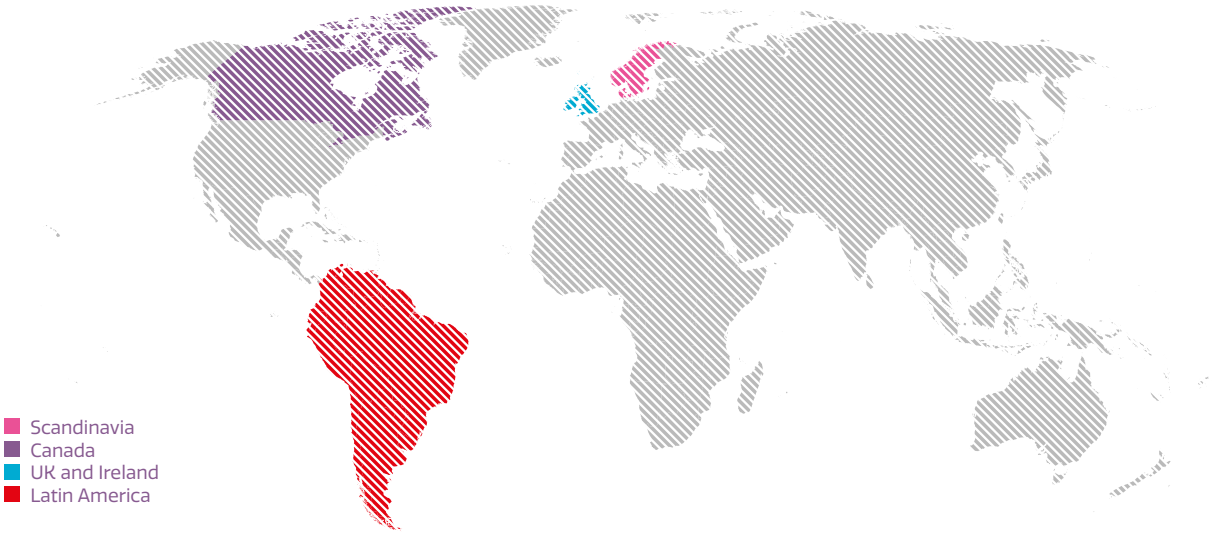
RSA's customers

A Small- and mid-sized commercial
B Large commercial
C Mid-market
D Other
E Personal



The above are presented as share of 2014 core business net written premiums of £6.8bn

OUR CORE BUSINESSES



OUR CUSTOMER FRANCHISE

- Market-leading positions
- Recognised strong brands
- Strong, award-winning products
- Excellent broker relationships
- Able to attract leading affinity partners
- Strong and improving Net Promoter Scores
- High and stable customer retention

MORE TH>N

TRYGG HANSA

CODAN

RSA INSURANCE

RSA SEGUROS

RSA ASSURANCE

BUSINESS RETENTION RATES

SCANDINAVIA

2013	81%
2014	80%

UK AND IRELAND

2013	85%
2014	82%

CANADA

2013	83%
2014	83%

LATIN AMERICA

2013	74%
2014	70%

+5 pts

Five point improvement in our UK Commercial Net Promoter Score in 2014.

2nd

We are the second most recommended Canadian insurer by Personal Lines brokers.

20 pt lead

Canadian Personal Affinity & Direct business has a 20 point Net Promoter Score lead over the competitive benchmark.

GROUP RESULTS

FINANCIAL SUMMARY

NET WRITTEN PREMIUMS

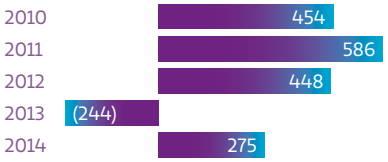
£7.5bn

COMBINED OPERATING RATIO (%)[2]

98.8%

PROFIT BEFORE TAX

£275m[1]



DIVIDEND FOR THE YEAR (P)

2.0p

2013: 10.2p[3]

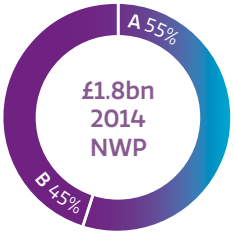
[1] On an IFRS basis, 2014 pre-tax profit of £275m comprises profits from both continuing and discontinued operations

[2] Restated on an 'earned' basis
[3] Restated for share consolidation

OUR CORE BUSINESSES

SCANDINAVIA

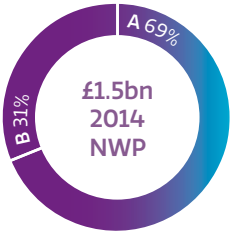
- Number 3 market position overall across the region
- RSA only multinational insurer in the region
- Market and RSA distribution are principally direct



A Personal
B Commercial

CANADA

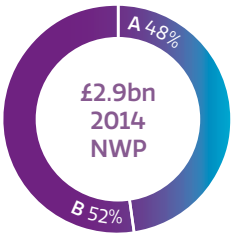
- National insurer with strong presence across Canada
- Third-largest insurer with broad multichannel and multidistribution capability
- Balanced portfolio with leading positions in Affinity, Travel and Marine



A Personal
B Commercial

UK AND IRELAND

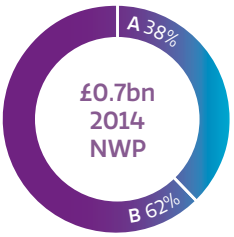
- Second largest UK Commercial insurer
- Fifth largest UK Personal insurer, including the second largest Pet insurer
- Balanced product and distribution mix
- Top 3 insurer in Ireland



A Personal
B Commercial

LATIN AMERICA

- Number 6 international insurer in Latin America
- Balanced country and distribution mix
- Number 1 in Chile, number 2 in Uruguay, number 6 in Argentina, leading niche position in Brazil. Operations in Mexico and Colombia



A Personal
B Commercial

Good business simply starts with our customers

Our products and services are built around our customers, adapting to different markets around the world. By anticipating their needs and using our expertise to innovate, we ensure the management of risk makes a difference to the lives of people all over the world.

OUR BUSINESS AT A GLANCE

Explore our business, our customer franchise and our ambition.

EXPLORE ONLINE

Visit us online to see summary information and listen to our Group Chief Executive's statement at:

rsagroup.com

This Annual Report and Accounts contains 'forward-looking statements' with respect to certain of the Group's plans and its current goals and expectations relating to its future financial condition, performance, results, strategic initiatives and objectives. For further details, reference should be made to the 'important disclaimer' on the inside back cover. Pages 2 to 47 constitute the Strategic Report of RSA and are incorporated by reference into the Directors' and Corporate Governance Report set out on pages 48 to 106. The Directors' and corporate governance report has been drawn up and presented in accordance with and in reliance upon applicable English company law and the liabilities of the Directors in connection with that report shall be subject to the limitations and restrictions provided by such law.

Contents

Chairman's statement

In the long history of RSA, 2014 will be seen as an important and highly significant year. Following the challenges at the end of 2013, your company has ended 2014 in a substantially improved position with a clear vision for a stable and healthy future.

At the start of the year, in my capacity as Executive Chairman, I set out with two key objectives. Firstly, to develop a new strategy which would allow RSA to return to stability, profitability and health; and secondly, to recruit a new Group Chief Executive to lead the company and successfully execute our strategy.

I am very pleased with the progress we have made against both of these objectives. I was delighted that we were able to confirm the appointment of Stephen Hester as Group Chief Executive in February. Stephen brings a wealth of experience, both as a FTSE 100 CEO and as the engineer of business improvement across many sectors. He has also brought energy, rigour, fresh thinking and challenge to the Boardroom and across the business. He has completed a thorough review of all of our businesses, challenging each one to improve their performance and to be measured against a benchmark of the leading competitors in their local markets. Stephen has inherited an experienced management team which he has supplemented by the recruitment of key external hires during the year.

Richard Houghton, our Chief Financial Officer since 2012, will step down from the Board at the AGM and will leave the company later this year. Both Stephen and I are grateful to Richard for his work at RSA and wish him well for the future.

In addition, we were delighted to welcome Enrico Cucchiani as a new Non-Executive Director during the year, following the retirement of Edward Lea and Malcolm le May after 11 and 10

"On behalf of the Board I would like to thank Martin for his contribution while acting as Executive Chairman during the challenging period at the end of 2013 and early 2014, which included the important step of commencing the strategic review of the Group."

Johanna Waterous
RSA Senior Independent Director

years' service respectively. I would like to thank both Edward and Malcolm alongside all of our employees for their contribution to the business during 2014.

The strategy which Stephen laid out in February is clear and simple. Our first priority is to tighten the strategic focus of the group. Our geographic spread had become fragmented with too many positions in emerging markets, many of which had insufficient scale or weak market positions. RSA had neither the financial or human resources to manage across 32 countries and a strategic retrenchment was essential. During 2014, we have made material progress in refocusing the business on our core markets in the UK and Ireland, Scandinavia, Canada and Latin America.

Our second strategic challenge is to improve the quality and quantity of capital in the business. One of the Board's main priorities for our shareholders is to ensure that the Group has sufficient capital to meet the demands of regulators and customers.

The significant financial gains we have made in disposing of our non-core businesses, together with the £773m we received from shareholders from our rights issue in April, have helped to address this challenge.

During the year we have maintained the level of management margin in reserves and have taken out reinsurance protection against adverse development of reserves. Against all of our key capital metrics, we ended 2014 in an improved position, although capital remains a key focus for the Board as we head towards the implementation of Solvency II in 2016.

Our final strategic objective is to improve the operational performance of the business. This started with a systematic review of our control environment in response to the issues that arose in Ireland in late 2013. Following comprehensive internal and external reviews, we found no evidence that the issues in Ireland were repeated anywhere else in the business. Despite this, during 2014 we initiated a Group-wide controls and governance review to ensure our internal control system is consistent and independent. The Board has been fully involved in this programme with Non-Executive Directors sitting on the operational steering group to ensure that we are satisfied with both the quality of thinking and the speed of execution. The programme has been making excellent progress.

Our operational improvement does not stop there. During the year we have identified opportunities across the business to improve revenue capabilities, increase efficiency and reduce costs.

The Board considers these plans to be stretching but achievable. Although it will take some years to both fully implement the plans and realise their benefits, we are confident that we will meet the medium-term objectives set out in this report.

Finally, I would like to thank all of our shareholders for their continuing support. I would encourage shareholders to use this Annual Report to learn more about the progress we are making and I look forward to seeing many of you at our AGM in May.

MARTIN SCICLUNA
Chairman
25 February 2015

Our role in a global society

For hundreds of years insurance has played a critical role in enabling global trade, facilitating innovation and fuelling economic and social prosperity. At RSA, we are proud of our heritage as the oldest insurance company in the world. Looking forward, we expect to continue to play an important role in global society.

At its heart insurance is about the pooling of risk. By enabling groups of customers to share risks, we lower the costs of those risks for all concerned. To add value for customers it is vital that insurers have a thorough understanding of the risks being pooled. Premiums need to cover the costs of claims as well as the costs of selling and administering the policy, and the cost of cover needs to be attractive to customers by matching to their evaluation of risk.

As well as lowering costs, pooling risks also creates assets. This is due to the timing difference between the receipt of premiums and the payment of claims. Insurers can use these assets to invest in society.

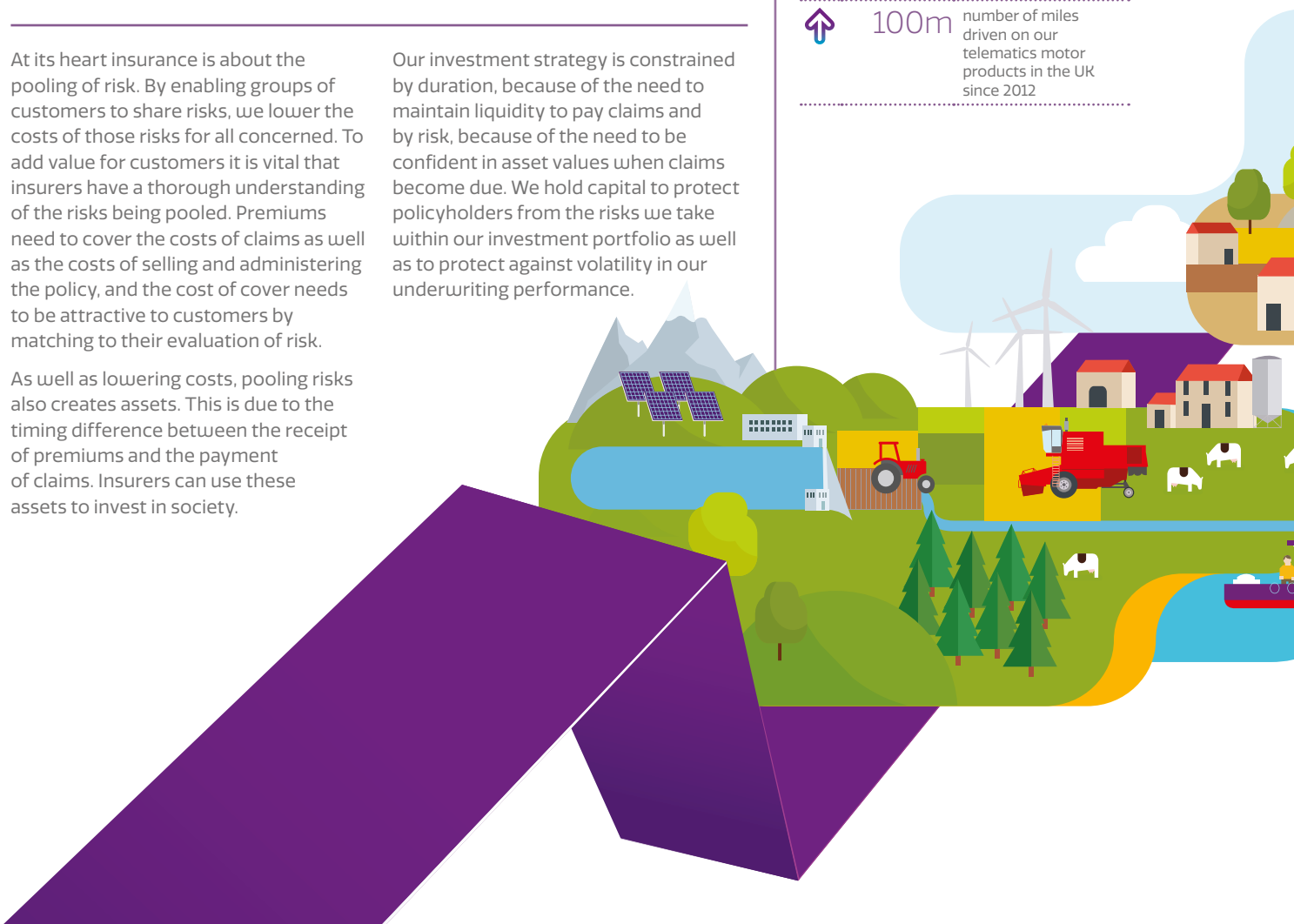
Our investment strategy is constrained by duration, because of the need to maintain liquidity to pay claims and by risk, because of the need to be confident in asset values when claims become due. We hold capital to protect policyholders from the risks we take within our investment portfolio as well as to protect against volatility in our underwriting performance.

PEACE OF MIND FOR INDIVIDUALS

Every day we insure millions of customers' families, cars, houses, and pets across the world. In doing so we provide our customers with the peace of mind that if the worst happens they will be able to rely on RSA to help.

Our products and services help to reduce risk and make communities safer places to live, work and travel. Motor insurance is a substantial part of our business and we have a clear commercial interest in making the world's roads safer. From promoting telematics to running road safety campaigns, we provide incentives, advice and guidance to customers and the general public to promote safer motoring for all users.

£4.0bn	of Personal net written premiums in 2014
13	no. of countries in the RSA Group that ran major road safety campaigns in 2014
100m	number of miles driven on our telematics motor products in the UK since 2012



SUPPORTING COMMERCIAL TRADE

Our commercial insurance products cover a wide range of business sectors from property, marine and motor through to utilities, telecoms, renewable energy, and construction and engineering. By reducing the costs of these risks to businesses, we enable our customers to deploy more capital on the creation of economic value. For example our marine insurance team facilitate international trade by lowering the risks and costs of transportation. We work with our large commercial customers to help them manage complex risks, reducing their premiums and our likely claims costs.

£3.5bn of Commercial net written premiums in 2014

£600m of Marine premiums written in 2014

70%[1] expected construction output growth by 2025

INVESTING IN OUR SOCIETIES

We hold our assets mainly in high-quality fixed income investments. This conservative investment strategy provides a stable source of capital to governments and companies and enables them to focus on generating economic value for their constituents and customers.

Our businesses and services also promote environmental sustainability by helping our customers respond to changing risks and promoting new ways of working that save energy and resources. We are one of the world's largest insurers of renewable energy, particularly in the offshore wind sector.

25% of the world's wind turbine manufacturing insured by RSA

80% of the world's offshore wind farms insured by RSA

£14.2bn of investment assets

SUPPORTING THRIVING COMMUNITIES

Our customers and our business do well when they are part of prosperous communities. Our products and services give individuals and companies confidence to invest and grow. Through our Corporate Responsibility activity, we focus on the social challenges many of the countries in which we operate face, including youth unemployment and the need to develop enterprise and entrepreneurship vital to economic growth. We run education and employability programmes, including skills-sharing volunteering activities, internships and SME business mentoring.

43% of our volunteering support focused on education and employability programmes

6,691 no. of volunteering hours devoted during 2014

£1.1m of charitable donations made during 2014

[1] Global construction 2025 by Global Construction Perspectives and Oxford Economics

Market dynamics

We are focused on the Northern developed markets of Scandinavia, Canada, the UK and Ireland, with a growing business in Latin America. Insurance conditions have remained challenging across these markets.

OVERALL TRENDS

The global economy continues to face significant challenges. However, signs of economic improvement in 2014, led by developed economies, should drive continued modest premium growth in the global P&C market. It is estimated that the global P&C market grew by 2.5% in 2014 and is expected to grow by 2.8% in 2015 and 3.2% in 2016 (source: Swiss Re Sigma).

Insurance market conditions for 2014 have remained challenging across our key markets. These markets range from highly concentrated to highly fragmented and from mature to developing. We have seen intense competition in most of our key business areas as our businesses compete for premium growth in a subdued economic environment.

The sustained low interest rate environment also poses a major challenge for the insurance sector and for RSA, given that the majority of our assets are invested in high-quality fixed income instruments. Lower interest rates therefore means lower investment income, which in turn places increased emphasis on underwriting profit as an important source of earnings.

Finally, as a result of the financial crisis, the industry continues to see increasing levels of regulatory scrutiny. This creates pressure on capital and resources. Solvency II, the new solvency framework being developed by the EU, is now planned for implementation on 1 January 2016. Until then, the eventual outcomes for the sector continue to be uncertain.

CUSTOMERS

Customer needs continue to evolve – both in terms of what they buy and how they buy it. Our customers are demanding more tailored products and increasing direct interaction with us. In addition, customers can now use the internet to compare products and prices easily. In response, we are further integrating our existing distribution channels with online channels.

Our aim is to ensure that our customers can service their policy wholly online so they can buy, change or make a claim on their policy with convenience. By the end of 2015, we intend to optimise all of our web journeys across the group for mobile devices, enabling our customers to browse, compare and purchase our products easily, using their smartphone or tablet. In the UK, we have made it possible for our insurance brokers to arrange SME (Small Medium Enterprise) insurance cover online. We also offer a webchat facility to help them through the process. Both of these make it quicker and easier for our brokers to do business with us.

The rapid advancement of technology and the increasing availability of data is opening the door to new ways of assessing and managing risk. This is particularly apparent in the UK personal motor sector where telematics is changing the way insurers underwrite and price risk. In 2014, we launched two telematics products in the UK, MORE TH>N DRIVE and MORE TH>N SMART WHEELS. As our marketplaces continue to evolve, we will continue to invest in our telematics offering and analytics capabilities.

UK AND IRELAND

The UK and Ireland has outpaced the Eurozone with 2014 GDP growth of 2.6% in the UK and estimated growth of 4.5% in Ireland (source: ONS and CBI).

In Ireland, the economy has emerged strongly from the recession following the wide-ranging austerity measures and is forecast to grow by 3.4% in 2015 (source: CBI).

Despite the pick up in the economy, consumers remain price conscious. In both markets, insurance pricing conditions remain soft across most major product lines.

In personal lines, the marketplace continues to be competitive, fuelled by overcapacity and low barriers to entry. Furthermore, new entrants are making substantial inroads into the market based on low cost and alternative business models.

Commercial insurance in the UK continues to be impacted by economic conditions and weakness in the Eurozone.

CANADA

The long-term national economic outlook for Canada is relatively stable with GDP growth of 2.4% in 2014, and is expected to grow at 2.1% in 2015 (source: Bank of Canada). Industry premiums are expected to grow at low single-digit rates in line with GDP.

Premium growth in 2014 was moderated by the Ontario auto price reductions announced last year, which form part of regulatory motor reforms designed to reduce auto insurance prices for Ontario drivers by 15% by August 2015. This market represents around a quarter of the overall Canadian P&C market. It is expected that there will be commensurate claims cost reduction measures to support this, although the timing of implementation is uncertain.

In personal property, we are seeing robust rate increases as the market continues to respond to the severe weather events of last year. However, Commercial lines continues to be impacted by increased capacity and competitive pressures.

Consolidation continues to be a key trend in the Canadian market among both insurers and brokers. This is driven by competitors looking to gain scale and competitive advantage through better data analytics and efficiencies.

SCANDINAVIA

The Scandinavian economies are perceived to be generally stable and relatively safe. We expect low single-digit positive GDP growth in 2015 across the key countries we operate in (Denmark, Sweden and Norway) as a result of growing consumer confidence and improved domestic demand. The insurance market is relatively mature and is therefore expected to grow broadly in line with GDP.

Overall, the pricing environment in Scandinavia remains broadly stable. 2014 was a relatively benign year in terms of weather events which resulted in good overall profitability in the market.

RSA is the third-largest insurer in the region. The region also has some structural differences from the rest of Europe in that the majority of insurance is distributed directly to the consumer.

Despite this, there is evidence that smaller competitors are gaining more share of the market. This highlights the importance for us of building and maintaining strong customer relationships.

LATIN AMERICA

In Latin America, political and economic headwinds persist and economic growth has slowed with 2014 GDP growth of 0.1% in Brazil and 1.7% in Chile, and contraction of 1.5% in Argentina (source: World Bank). GDP growth is forecast to recover slightly in 2015 as the US economic recovery spills over to the region.

The insurance markets in Latin America remain attractive on a fundamental basis due to low insurance penetration and a growing middle class. However, they continue to face the challenges of high inflation, and exchange rate volatility.

+2.5%
Global P&C market growth in 2014

+2.8%
Expected Global P&C market growth in 2015

How we create value

We make a difference by protecting people and businesses against the risks they face in their daily lives. We provide unrivalled expertise through our global network of providers to cover everything from houses and pets, to skyscrapers and tankers, across the world.

INPUTS

FINANCIAL AND OPERATIONAL

4
Core regions

£5.2bn
Capital employed

19
Thousand employees

STRATEGIC

- Our brands
- Our strategic priorities
- Our corporate responsibility programme
- Our governance and risk management frameworks

OUR CULTURE AND VALUES

BRILLIANT SERVICE
Delivering memorable service that inspires people to recommend us.

GETTING THE JOB DONE
Delivering on our promises and cutting out unnecessary processes to make things simpler.

DOING THE RIGHT THING
Using common sense when dealing with people, gaining their trust by treating them as they want to be treated.

BRIGHT IDEAS
Continually combining our technical expertise with a deep understanding of customers' needs to create and deliver solutions that people value.

POSITIVE PEOPLE
Creating an environment where people want to do great work.

UNDERSTANDING AND PRICING RISK

We are in the business of risk management. We strive hard to understand the risks our customers want us to insure and make sure that we price our products appropriately.

EFFECTIVE PRODUCT/ CUSTOMER DISTRIBUTION

We distribute our products through many different channels. Efficient access to customers is key if we are to continue to develop our business.

VALUE FOR OUR SHAREHOLDERS

Ensuring shareholders are adequately rewarded for the capital they provide
We aim to achieve acceptable returns by ensuring that underwriters understand the target price required to deliver target returns on capital.

The most effective way to grow premium income
We strive to find the lowest cost route to the largest number of customers, tailoring our offering to meet the needs of specific markets.

VALUE FOR OUR CUSTOMERS

Enabling customers to manage their risk appetite
We work with our customers to ensure that they can reduce their risks, reducing premiums for them and claims costs for us.

Accessing insurance products in the way customers want
The way in which customers want to buy insurance is changing. We are at the forefront of these changes, anticipating customers' evolving needs to provide easy access to our products.

VALUE FOR SOCIETY

Enabling society to grow and develop
By effectively enabling risk transfer across society, we encourage entrepreneurship and innovation in the societies we work in while ensuring that society is protected from extreme events.

Playing our part in the digital world
As more business is transacted online, we are investing to improve our customers' online experience and encouraging customers to embrace digital distribution.

INTERNATIONAL EXPERTISE AND DIVERSIFICATION

As an international business we are seeking to maximise the benefits of our reach without losing touch with the differing needs of the many markets we operate in.

Lower volatility of earnings and lower capital requirements
The diversity of our business enables us to hold capital efficiently. Our geographical footprint diversifies our exposure to catastrophe events leading to lower volatility of earnings.

Access to best practice innovation and multinational risk coverage
We are always looking to share ideas and best practice across countries giving customers access to innovative products and services. We can provide multinational customers with global product coverage.

Spreading best practice
As markets evolve we can quickly export best practice from one country to another. This means that the best of RSA is available to all the societies we operate in.

PRUDENT INVESTMENTS

Our business generates significant assets which are prudently invested to deliver returns for shareholders.

Additional income without putting capital at undue risk
Shareholders benefit from the returns on our assets, in the knowledge that our prudent approach is unlikely to jeopardise their capital.

Confidence that a claim will be paid
Our substantial reserves are invested in low volatility assets. This means that customers can be confident that we will pay claims when they are due.

Enabling growth and providing capital
We invest in all the countries we operate in, providing capital to governments and companies to enable economic growth.

MANAGING CLAIMS AND SERVING OUR CUSTOMERS

Our customers' expectations are increasing. We aim to constantly improve the service we offer, and pay claims quickly and efficiently.

Lower claims costs and higher retention
Generally, claims that are settled quicker, settle for less, meaning claims ratios fall. Satisfied customers will stay with us for longer, reducing acquisition costs.

Access to ancillary services
Increasingly our customers are looking for more than just claims payment. For instance, access to our supply chain to enable lower costs of ancillary services allied to the core insurance product or risk management to prevent claims occurring.

Helping society recover from disasters
When catastrophes strike, we help society get back on track quickly, through settling claims fairly and efficiently.

OUTPUTS

£7.5bn
Net written premiums

£2.9bn
Tangible net asset value

£14.2bn
Investment assets

c.80%
Customer retention

12–15%
Target underlying return on tangible equity

CONTINUING CUSTOMER FOCUS

Making it easier for our customers to interact with us

Customers needs are central to our strategy. Staying close to our customers means communicating in a way that's right for them. As technology evolves we are quick to respond, adapting our channels of communication to meet our customers' needs.

Increasingly, digital channels are becoming the primary route for customers to find, and change, their insurance products. With this in mind, our digital team are constantly improving the conversations between our brands and their customers by utilising the latest tools and techniques. In this way we can ensure that all of our customers can interact with us easily, and in a way that suits their communication needs.

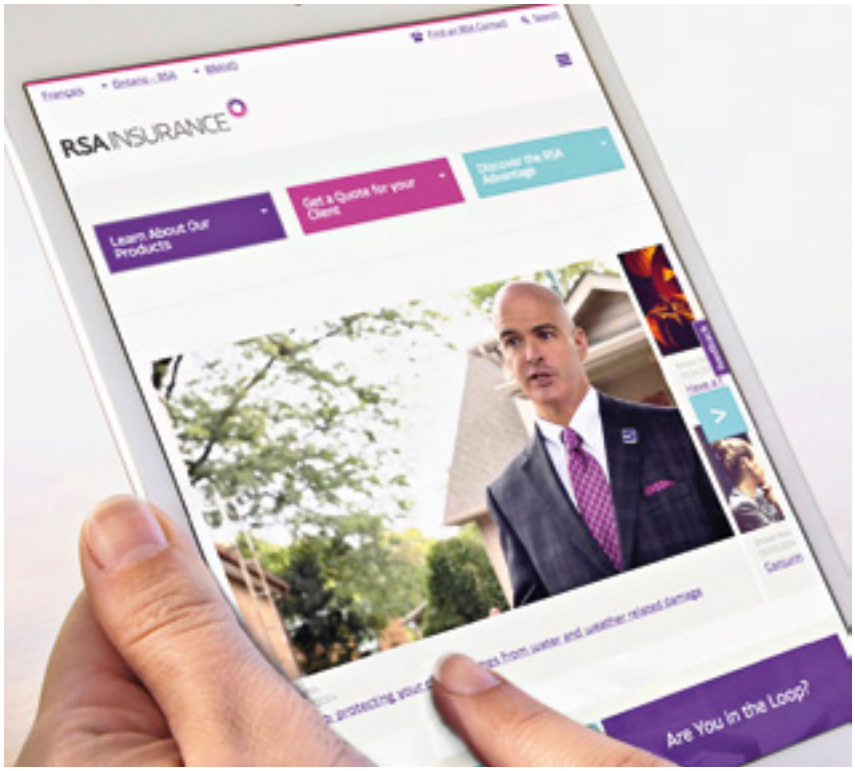
Our decisions are data driven, personalising our content and services to meet our individual customer needs on their chosen channel of communication.

Digital's influence will only increase, and our aim is to anticipate future digital trends and create modular solutions that are 'future friendly' and 'device agnostic'. This limits the impact of uncertainty and enhances RSA's products, so that as our markets become increasingly connected, we're there when our customers need us.

WINNER

- BEST UK PET INSURER 2014 AT THE PERSONAL FINANCE AWARDS
- CANADIAN TRAVEL INSURER OF THE YEAR IN 2014, AWARDED BY THE INTERNATIONAL TRAVEL & HEALTH INSURANCE JOURNAL
- BEST DANISH DIGITAL INSURANCE COMPANY IN 2014, AWARDED BY MYRESEARCH
- BEST OVERALL INSURANCE PROVIDER AT THE WHAT MORTGAGE AWARDS 2014

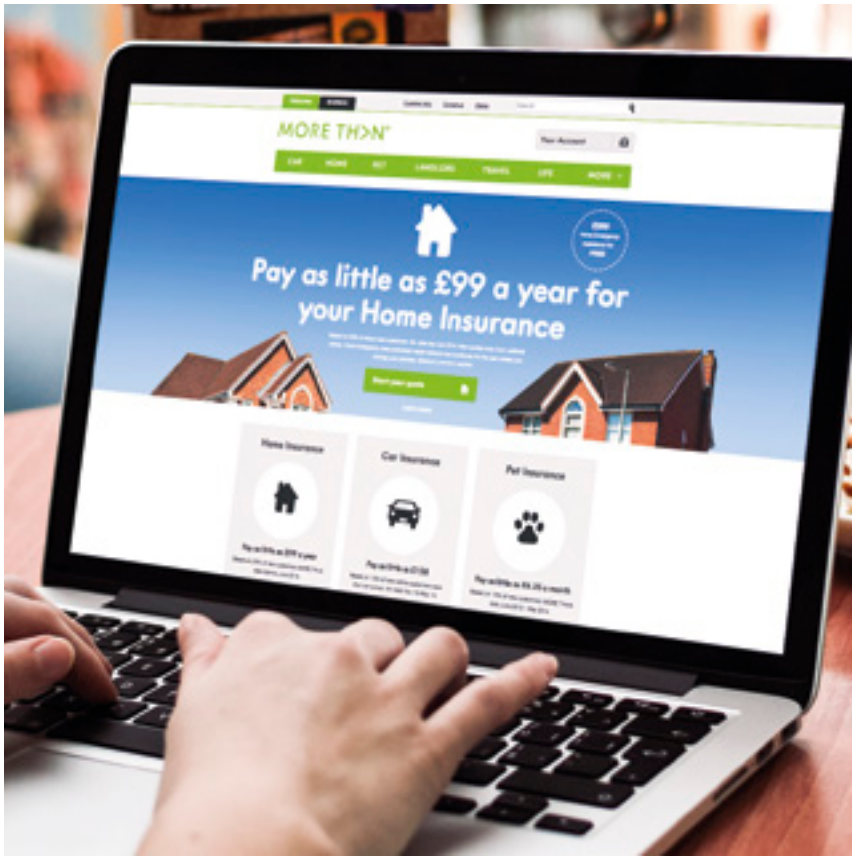
CONTINUING CUSTOMER FOCUS



CANADA

RSABroker.ca
Our Canadian platform, RSABroker.ca, provides all-round support to brokers. Drawing inspiration from our UK broker platform, the website makes it easier for brokers to transact, download product information or get news delivered straight to their in-box. The platform also showcases our recent brand refresh.

Since its launch, there has been a 16% uplift in brokers transacting online. Newsletter sign-ups have increased by 118%, and overall visits are up 13%.

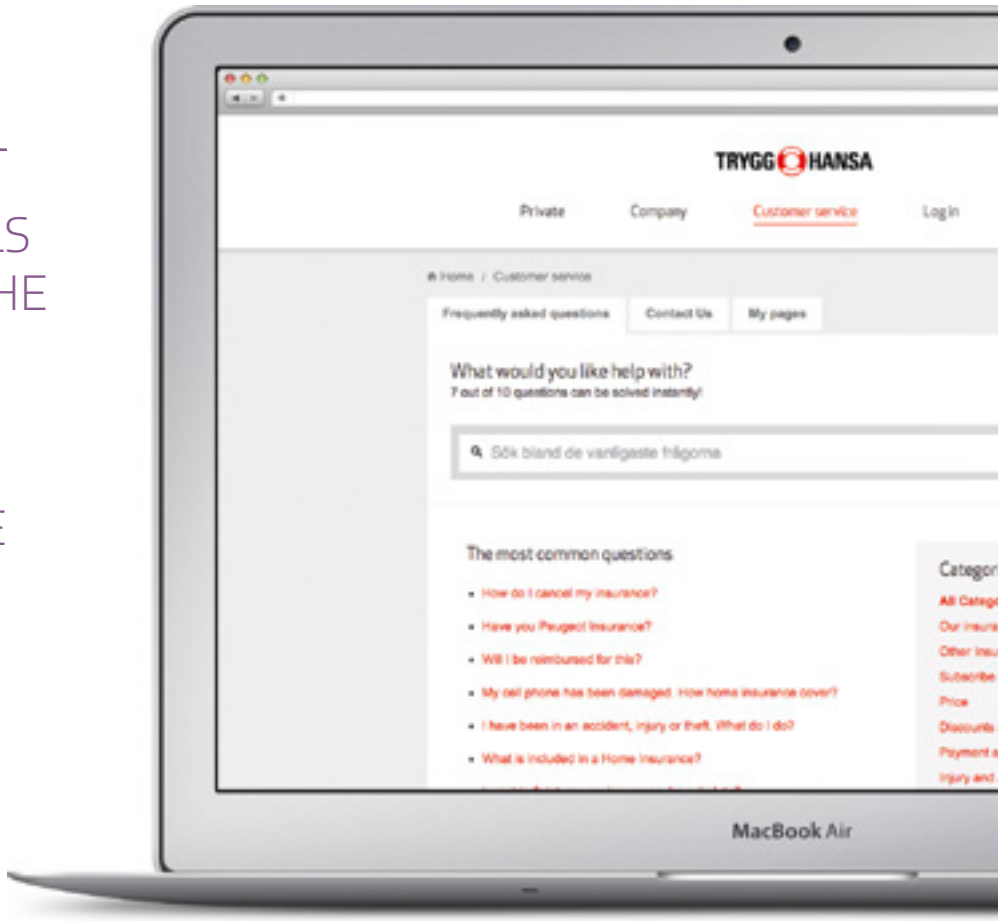


UK

MORE TH>N
Online remains a key channel for MORETH>N and this year we completed a major update to the MORETH>N website. The new site sits on a platform that enables us to rapidly build and test new features, so we can deliver the right online experiences and make sure that customers can interact with us easily on the device that suits them.

Alongside our site launch we have been building new products to better meet customer needs. In February, we launched Name Your Price for Home, which asks customers how much they would like to pay for their home insurance and then builds the level of cover to match their price. In July, we launched M> Drive, an app that helps safer drivers get lower premiums by tracking and scoring their driving behaviour. September saw the launch of Smart Wheels, a telematics 'black box' monitoring solution that rewards safe young drivers with cashback.

"DIGITAL CHANNELS ARE BECOMING THE PRIMARY ROUTE FOR CUSTOMERS TO MANAGE THEIR INSURANCE PRODUCTS."



16%
increase in Canadian brokers transacting online with RSA

SWEDEN

TRYGG HANSA

We are the third-largest insurer in Sweden, and our business there is one of the most profitable in the group.

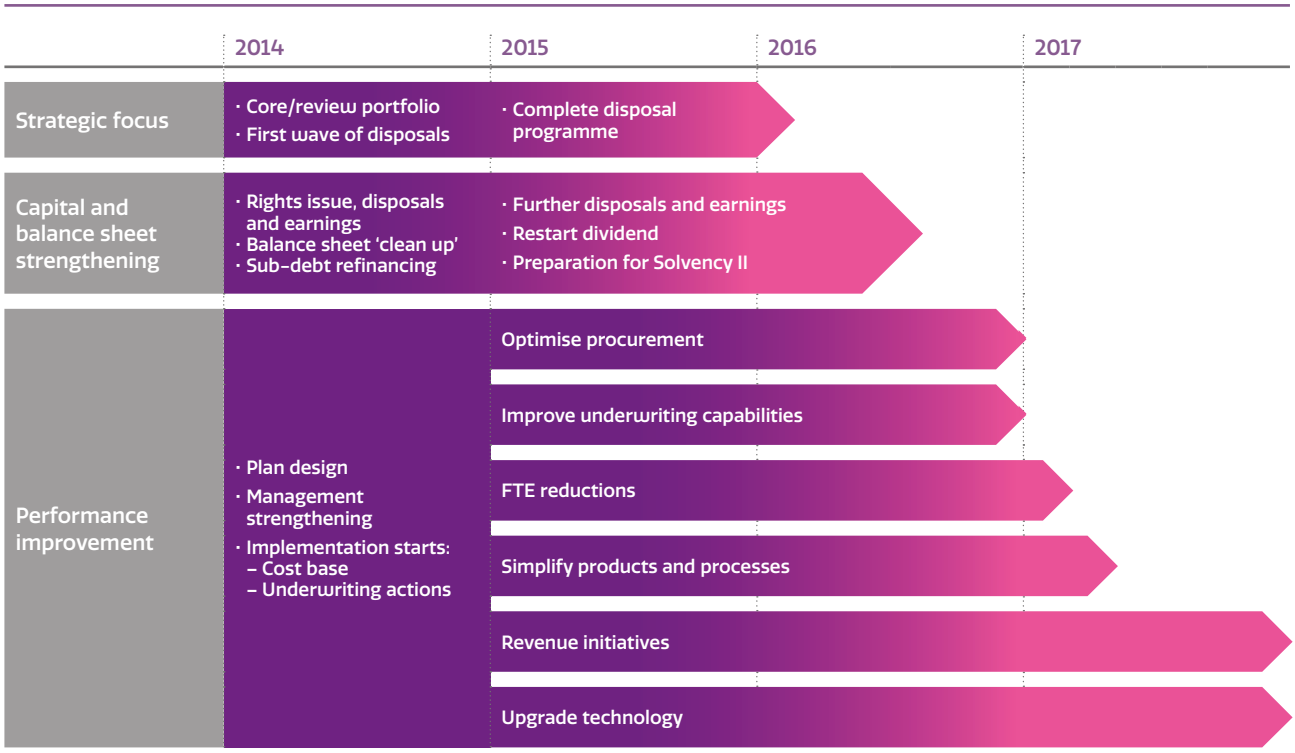
Our Digital, Technology & Marketing teams have delivered on a number of key initiatives, including improvements to the online sales, customer service, and claims strategies. In February 2014, we launched a customer self-service capability with great success, and this has influenced projects in both the UK and Canada.

The redesign of the new motor customer journey involved simplifying the buying process. This comprised of reducing the number of web pages that a customer goes through from five to three and allowing a quote to be started directly from the home page of the website. The responsive design provides a great customer experience regardless of the device the customer is using.

To ensure the changes to the experience were of the highest quality we undertook rigorous testing with our customers during development. All feedback was included in the final project before finalisation.

These changes have seen an early uplift in mobile purchases, with one in four sales now made through a device.

STEPHEN HESTER
Group Chief Executive



Group Chief Executive's statement

2014 was an important year for RSA. The Company made good progress in the face of some tough realities. We can look to the coming years with much sounder strategic and financial foundations. We have created far reaching and detailed plans for operational improvement. Actions are well underway and beginning to benefit both the underlying potential and performance of our businesses.

STRATEGY AND FOCUS

RSA is a leading international insurer. Our refocused business has leadership positions in Scandinavia, Canada, UK and Ireland, and parts of Latin America. Where we do business, we are determined to do it well and be known for our service and appeal to customers. In volatile and competitive markets, our balance of geography, customer, product and distribution channels are valuable and distinctive attributes.

We have three interrelated priorities. Customers are our lifeblood; serving them well is our purpose. We need to operate with financial strength and transparency; and have the discipline to sustain it. Our shareholders own the Company; we are concentrating intensely on building strong, long-term performance to make RSA the best investment proposition we can achieve.

INDUSTRY CONDITIONS

We operate in relatively mature, stable and consolidated markets. These continue to underpin our ambition of good and improving customer service – offering vital risk management and value for money. We see continued evolution as digital and other trends are harnessed to improve the scope of how we operate. Despite economic challenges, industry conditions also allow us to realistically target a cash generative business, returning greater than the cost of capital for shareholders.

RSA's diversity helps protect our performance potential. However, like industry competitors and many other businesses, low interest rates, exchange rate moves and modest growth rates create significant performance headwinds. Strong price competition, intensified by third-party capital seeking alternative outlets from stock and bond markets, has led to sharper price/volume trade-offs than before in a number of segments. As a result, in each of our larger markets there are some competitors reporting falls in, or static like-for-like, premium income. Five-year bond yields are down a further 0.8-1.6% since the start of 2014 across our principal markets, impacting the outlook for investment returns. Around two-thirds of RSA's premiums lie outside the UK. January 2015 month-end spot exchange rates would imply a c.3% reduction in the reported Sterling figures versus the premiums reported for 2014, with the impact being larger in profitability terms.

2014 ACTIONS

I joined RSA in February 2014 with a mandate to lead the Company in three urgent tasks. These were: to thoroughly identify the sources of RSA's performance weaknesses; to devise plans to fix these and address internal and external challenges to realising RSA's potential; and then to implement those plans. The first two tasks are largely done. The third is well in hand, but with much tough and disciplined work ahead to follow through.

As so often in corporate turnarounds, the cost of remediation has proven greater than we hoped, especially in the form of reserving and non-cash charges. But we have been able to pay for this through outperformance in divestment proceeds. We have refocused RSA on its most important businesses, with a well executed divestment programme already substantially completed.

We raised £773m in May thanks to shareholder support via a rights issue and a further £810m of proceeds from announced divestments to date (of which £550m already completed) at prices well above tangible book value. We also successfully refinanced £400m of long-term subordinated debt and saw credit ratings restored.

Across our core business, determined action has set a course for improved underwriting results with current year loss ratios (ex-volatile items) improving versus 2013, overall and in most major business units, and expected to do so again in 2015. Alongside this is activity across our business to sustain and

improve the health of our customer franchise and to invest in technology, product and service initiatives. These efforts mitigated the customer impact of RSA's 2013–14 problems and are expected to improve performance further in coming years, also returning us to moderate top-line growth.

The cost base is being tackled vigorously and investment plans to facilitate this and improve customer capabilities have been set out for the next five years. Total controllable costs are down 12% to £2.1bn versus 2013 (down 6% in real terms ex disposals and FX). Our 2016 target of greater than £180m underlying cost reduction has been raised to greater than £210m and a new target of greater than £250m set for 2017. Our linked ambition is to lift productivity measures (Premiums: employees) by 15–20% by the end of 2017 versus 2013 numbers.

RSA needed a substantial financial overhaul. This has focused on improving both the quality and the health of its balance sheet and profits. The ongoing drag of costs below the underwriting line is also being addressed through reducing central overhead, interest and non-cash amortisation. Intangible assets and deferred acquisition costs have been written down where no longer well supported, with action on booked values of discounted liabilities and deferred tax assets, to better reflect current circumstances, though both are still potentially vulnerable to future economic conditions and business performance. We still have significant volatile accounting items in the form of unrealised bond gains as well as off-balance sheet pension liabilities (which are now reporting a surplus under IFRS for the UK, but with latent risk).

FINANCIAL RESULTS

Headline profits at £275m pre-tax compare to a £244m pre-tax loss in 2013, yet still represent a fraction of what we seek to achieve as RSA improves performance in coming years.

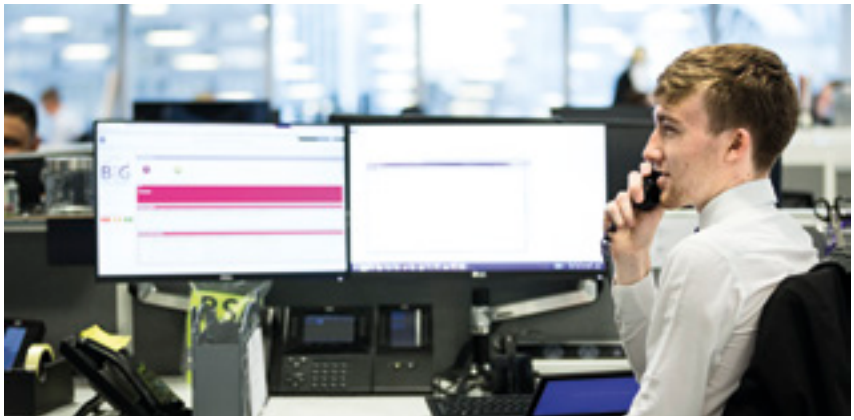
Net tangible assets have improved by £1.2bn (74%) to £2.9bn in 2014 (from 19% to 39% of net written premiums) and now lie within our target range from a capital perspective, though still at the lower end. We are pleased to recommence dividend payments with a final dividend recommendation of 2p per share. This is a modest level reflecting the work remaining on profit and capital build. We reiterate a medium-term ambition of 40–50% dividend payouts plus further capital distributions if excess capital arises.

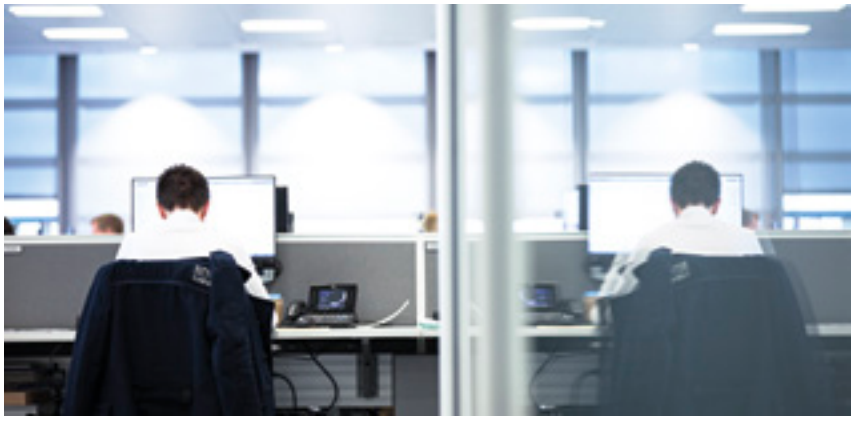
Behind the 2014 headline figures are many moving parts, reflecting market movements and the actions we have taken.

Premium income is down 2% on an underlying level at constant exchange (8% headline including completed disposals, Motability changes and the Group ADC). Scandinavia did well (up 3%), UK saw most portfolio restructuring (down 6% underlying) with Canada also down a little (3%). At reported exchange rates premiums were down 14%.

Current year core business underwriting profit (ex-Ireland) was a record £190m (2013 £97m) reflecting a one point improvement in underlying loss ratios, and after a relatively normal weather and large loss charge. The core business current year underlying loss ratio (ex-Ireland) was 56.2% (2013: 57.2%) and has improved in each quarter during 2014.

Total underwriting profit was £90m (2013 £57m). The figure was depressed by significant reserve strengthening which impacted prior year profits (prior year underwriting profit ex Ireland £14m; 2013: £172m) and an Irish underwriting loss of £107m. The latter mainly relates to the development of issues from 2013 and prior. Both items have proven more costly than was estimated at the start of the year. We expect them to improve sharply in 2015.





Disposal gains of £342m were offset by the charges outlined above, albeit much of the latter being non-cash items.

PLANS FOR THE FUTURE

RSA's new and focused strategy was set out a year ago. We believe it is the right one. Our medium-term performance targets are also unchanged; 12-15% underlying return on net tangible assets, 35-45% tangible equity/net premiums, though the latter is sensitive to Solvency II outcomes as well as market factors and may need to be updated at the end of 2015.

THANKS

Managing major transformations is not easy. Sincere thanks and appreciation are due to all our stakeholders; customers and brokers for their support in the uncertainties of early 2014; shareholders for support through disappointing past news and equity fundraising; and of equally vital importance, my RSA colleagues. The steadfast and dedicated service of our 19,000 staff towards customers and to improving our Company is hugely appreciated. There have been significant changes to our executive management team, and talented people have stepped up internally and have joined us from elsewhere. To all, I am grateful.

We know where we want to take RSA and how to do it. We will face challenges and setbacks. But we believe in this Company, in its place in our industry and its performance potential.

STEPHEN HESTER
Group Chief Executive
25 February 2015

How we are delivering against our new strategic vision continued...

FOCUSED

We said we would tighten the strategic focus of the Group so we can concentrate on performing sustainably well in core businesses.

MAY
£220m
Sale agreed of Noraxis in Canada

APRIL
£290m
Sale of Baltic and Polish operations announced

JULY
£71m
Sale of Chinese business agreed

DECEMBER
£37m
Sale of Thailand minority stake agreed and completed

AUGUST
£130m
Sale of operations in Singapore and Hong Kong announced

OCTOBER
£19m
Sale of Italian business agreed

FEBRUARY 2015
£46m
Sale of India minority stake agreed

We have focused the geographical footprint of our business onto our core operations in Scandinavia, Canada, UK and Ireland, and Latin America.

FOCUSING ON WHAT WE KNOW BEST
At the heart of our strategic plans is the ambition that RSA will be operated with discipline and effectiveness to serve customers well, and build shareholder value from a strong capital platform across its main core businesses. These are in the UK and Ireland, Scandinavia, Canada, and Latin America. Our geographical spread outside this core group has already reduced significantly, and will continue to do so over the coming year. To date we have agreed the disposals of our businesses in the Baltics, Poland, Hong Kong, Singapore, China, Italy, India, and Thailand, and our brokerage business in Canada (Noraxis).

We target business where we can sustain leadership positions with customers while earning better than cost of capital for shareholders. We value diversity and balance provided it does not come at the expense of those core disciplines and provided our Group has the resources and capitalisation to properly succeed with the business we take on.

Still on our to-do list:

- Agree remaining disposals
- Complete all agreed sales

STRONGER

We said we would reset the quantity and quality of capital the Group works with, and the disciplines that will sustain it.

FEBRUARY
A STABLE
S&P credit rating upgraded

APRIL
£773m
Proceeds from successful completion of rights issue

We have rebuilt our tangible equity through a successfully negotiated rights issue and a series of disposals. We have also completed significant work towards strengthening our balance sheet.

FEBRUARY 2015
£810m
Disposals reported to date

DECEMBER
£450m
Outstanding bond issue with 8.5% coupon retired

OCTOBER
£400m
Bond issue completed with 5.1% coupon

AUGUST
H1 RESULTS
Balance sheet strengthening actions announced. 57% increase in tangible equity.

BUILDING CAPITAL STRENGTH

After the world's economic shocks of 2008–09, the capital bar is being set higher, not just in banking but for insurance too. RSA needs a strong capital base from which it can achieve its objectives. Our customers, rating agencies and regulators demand this, as we must demand it of ourselves. Without such strength, and the discipline to sustain it, the company cannot succeed.

During 2014, our capital and balance sheet health has been decisively restored, along with new management disciplines to sustain the position. The rights issue and disposal gains have rebuilt tangible equity. There is no single capital measure that captures what we need to achieve. But across the various ratings, internal and regulatory measures, healthy levels of tangible net assets are crucial. We have set a target of building net tangible assets to 35–45% of premium income. Our position at 2014 year end was 39% and we aim to build from here into the upper end of the range.

Still on our to-do list:

- Benefits from remaining disposals and future earnings
- Build towards a sustainable ordinary dividend
- Complete preparations for Solvency II

BETTER

We said we would improve business performance and the Group's ability to sustain it. This means underwriting, expense, technology and people actions.

APRIL
GROUP COO

Paul Whittaker announced as Group Chief Operating Officer

MARCH
IRELAND CEO

Ken Norgrove announced as new Irish CEO

Fundamental to our ability to improve is the human dimension; ensuring our people share the new Vision and Roadmap; and assembling a management team that can improve upon what we have done before. We have made good progress on this in 2014, with key appointments in Scandinavia, the UK and Ireland, and Group Head Office.

JUNE
UK AND SCANDINAVIAN CEOS

Stephen Lewis and Patrick Bergander announced as UK and Scandinavia CEOs respectively

AUGUST
£180m

Cost saving target in excess of £180m announced

FEBRUARY 2015
£250m

Updated cost saving target of in excess of £250M by 2017 announced

We have put a three-year plan in place. 2014 has been very much a foundation year, and that has meant assembling a new management team that will drive future change.

Still on our to-do list:

- Implementation of cost and revenue targets
- Investment in technology
- Commence 'wave 2' initiatives

IMPROVING BUSINESS PERFORMANCE

The focus of our operating plans is about being better. In fact, aiming at being among the best at what we do. This is a multifaceted task. We have two core priorities in this regard: costs and revenues. To be competitive for customers, to invest in better capabilities and to properly deliver for shareholders we need to reduce costs. At the same time we have been developing many initiatives to invest in our business to improve customer service and efficiency. Our technology needs to move forward as does the sophisticated use of data to make the best underwriting decisions, and for this we now have plans in place.

Determined action to improve the sustainability of our insurance portfolio and its expected loss ratios is another major feature of our work. During 2014, we have repriced or trimmed business we cannot make sense of, and from this new sounder base we expect to grow again but with better underlying loss ratios.

Key performance indicators

We consider that the following nine key performance indicators are important in measuring the delivery of our strategic priorities.

1. NET WRITTEN PREMIUMS (NWP)

Performance (£bn)

Definition
Premiums in respect of policies written during the year, less any costs associated with purchasing reinsurance protection.

Commentary
NWP is an important metric for RSA, ensuring an appropriate growth rate that matches the footprint of the Group and its capacity for growth. Premiums fell in 2014 due to business disposals and the remediation of portfolios in our core businesses.

Outlook
Growth rates in Scandinavia, Canada, UK and Ireland would typically be at low single-digit levels. In Latin America mid-high single-digit growth is expected.

2. TANGIBLE NET ASSET VALUE (TNAV)

Performance (£bn)

Definition
Total shareholders' funds, excluding goodwill, intangibles, and preference share capital.

Commentary
Insurance companies manage a number of different capital metrics. The common theme of these metrics, is that they all benefit from growing levels of TNAV. TNAV is also important because it is a measure of the underlying value of our business, although our TNAV is sensitive to external factors such as market movements.

Outlook
Aim to continue to grow TNAV through a combination of retained earnings, and the completion of remaining disposals.

3. TNAV:NWP

Performance (%)

Definition
The ratio of TNAV to NWP.

Commentary
An important metric that is widely used by investors and other stakeholders in the insurance industry to compare companies within the sector. When used as a relative metric against peers, it provides an indication of relative capital strength, but should be judged in the context of the diversification and geographical spread of the business. It underpins all of the capital metrics (IGD, ICA, ECA, rating agency) of the Group.

Outlook
Aim to maintain in a range of 35-45%.

4. COMBINED OPERATING RATIO (COR)

Performance (%)

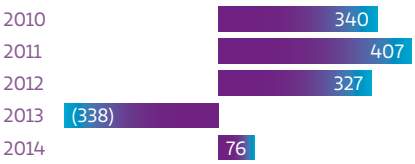
Definition
A measure of underwriting performance – the ratio of underwriting costs (claims, commissions and expenses) expressed in relation to earned premiums.

Commentary
An important ratio used across the insurance industry that measures underwriting costs as a proportion of revenue. It is often used as a relative measure of underwriting efficiency when comparing against peers. The aim is to keep this ratio as low as possible without compromising the quality of reserves or becoming uncompetitive on price.

Outlook
Improving combined ratios over time, initially targeting a return to levels in the mid-90s.

5. PROFIT AFTER TAX (PAT)

Performance (£m)



Definition
Profits generated from underwriting insurance business, plus the return from investments, less items such as central overheads, interest expense, amortisation and tax.

Commentary
Healthy and growing levels of profit are important as they fund dividends and, when retained in the business, drive growth in TNAV and improve capital metrics.

Outlook
Improving levels of profit over time as the benefits of our actions begin to come through.

6. UNDERLYING RETURN ON TANGIBLE EQUITY (ROTE)

Performance (%)

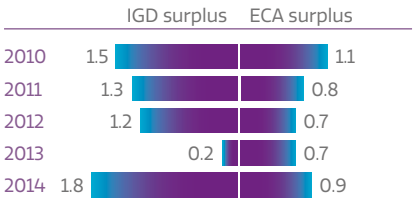
Definition
Operating profit attributable to ordinary shareholders less interest costs and underlying tax, expressed in relation to opening tangible shareholders' funds (i.e. excluding goodwill and intangible assets).

Commentary
A key measure of shareholder value and one that informs overall valuation in the insurance sector.

Outlook
Targeting 12-15% in the medium term.

7. CAPITAL STRENGTH

Performance (£bn)



Definition
Insurance Groups Directive (IGD or 'Solvency I') and Economic Capital.

Commentary
While there are several ways of measuring capital strength, Solvency I (IGD) is one of two key measures stipulated by our lead regulator – the PRA, alongside our own internal economic capital assessment model (ECA) that assesses the likely capital requirements of the Group in an extreme stressed scenario. In 2016 we will move to Solvency II, the new European regulatory capital framework.

Outlook
Further improvements towards appropriate surplus levels in excess of a range of regulatory and rating agency indicators.

8. CUSTOMER

Performance (customer retention %)

Definition
We use key measures such as customer retention, net promoter score (NPS) and customer satisfaction.

Commentary
We aim to put customers at the heart of everything we do and delivering for our customers is an important part of our strategy. Our customer KPIs are important in helping us keep on track to deliver on this commitment.

Outlook
Hold retention at around 80% improving levels of customer satisfaction across our businesses.

9. CARBON EMISSIONS

Performance (gross tonnes of CO_2 per FTE)

Definition
Gross tonnes of carbon emissions (CO_2) per full time equivalent (FTE) employee.

Commentary
We understand the importance of managing our own environmental impact. Our operations in the UK, Ireland and Group Corporate Centre are carbon neutral, offsetting their equivalent emissions in renewable-energy projects in China, India and South America which are certified to the Voluntary Carbon Standard.

Outlook
We aim to reduce our carbon emissions by 20% per employee by 2018.

Financial review

The Group returned to profit in 2014 with a pre-tax profit of £275m. The underlying performance of the business remains encouraging, and successful disposals produced strong gains. However, work to overhaul our balance sheet was expensive, and market headwinds, especially from exchange rate changes and low interest rates, remain significant.

RICHARD HOUGHTON
Group Chief Financial Officer

PREMIUMS

2014 net written premiums were down 8% from 2013 at constant exchange rates and down 2% on an underlying basis (excluding completed disposals, Motability and the adverse development reinsurance cover). Our premium base is smaller than last year due to portfolio restructuring, disposals and foreign exchange.

Premiums in Scandinavia were up 3%, with good focus on increasing rates across the book. Canadian premiums were down 3% driven by a 5% reduction in Commercial premiums due to the underwriting actions we have been taking on the portfolio. UK premiums were down 6% (down 15% including Motability). During 2014, we have taken significant portfolio actions in the UK, with particular focus on UK Personal Motor where premiums were down 26% as we remain focused on achieving our target returns. Ireland premiums were down 5% following strong rate increases during the year in key lines requiring remediation, which affected retention rates. Latin American premiums grew 4% at constant exchange with inflation-led growth in Argentina partly offset by the impact of restructuring actions elsewhere in the region.

UNDERWRITING RESULT

2014 has been a year to build quality foundations from which our Action Plan can deliver future improvements. Group underwriting profit of £90m (2013: £57m) comprised £108m from core operations, and an £18m loss from discontinued and non-core operations. Excluding Ireland, the core operations delivered £215m of underwriting profit.

The current year profit was £121m (2013: £12m), and excluding Ireland this was up 96% to £190m (2013: £97m). Total weather costs for 2014 were £253m representing a weather loss ratio of 3.2% (2013: £303m or 3.5%; five year average: 3.0%). The large loss ratio of 7.4% (2013: 7.8%) was lower than the five year average of 8.4%, reflecting business mix improvements and relatively benign experience in Scandinavia, partly offset by the earthquake in Chile which impacted the Latin America and Group Re result.

The current year underlying loss ratio was 57.6% (2013: 58.7%) and has improved in each quarter during 2014. Excluding Ireland the underlying current year loss ratio was 56.2% which is 1 point better than 2013.

The prior year result was a loss of £31m driven by a prior year underwriting loss of £45m in Ireland, UK Professional Indemnity reserve additions of £46m, UK legacy reserve additions of £32m, and £30m for further UK 2013 weather claims and Marine premiums. We expect sustainable prior year releases to be generally below 1% of premiums, but there is the potential for volatility given our commitment to transparent reserve margins.

INVESTMENT RESULT

The investment result, which now includes investment expenses of £29m (previously reported below the insurance result), was £327m (2013: £365m).

FINANCIAL RESULTS – MANAGEMENT BASIS

£m	**2014**	2013	2012	2011	2010
Net written premiums	**7,465**	8,664	8,353	8,138	7,455
Net earned premiums	**7,874**	8,594	8,167	7,856	7,179
Underwriting result	**90**	57	358	363	240
Investment result	**327**	365	398	451	442
Insurance result	**417**	422	755	814	679
Central costs and other activities	**(52)**	(73)	(89)	(100)	(106)
Operating result	**365**	349	667	715	575
Non-operating items	**(90)**	(593)	(219)	(129)	(121)
Profit/(loss) before tax	**275**	(244)	448	586	454
Tax	**(199)**	(94)	(121)	(179)	(114)
Profit/(loss) after tax	**76**	(338)	327	407	340
COR (%)	**98.8**	99.4	95.7	95.4	96.7
Tangible net asset value (£m)	**2,900**	1,665	2,136	2,317	2,432

Notes:
In 2014, the Group changed its combined ratio calculation methodology. The combined ratio is now presented on an 'earned' basis, where net incurred claims, earned commissions and earned operating expenses are all expressed as a percentage of net earned premiums. All years shown above have been restated on this basis.

Profit before tax of £275m comprises £60m from continuing operations and £215m from discontinued operations. Refer to note 1 of the Financial Statements for further detail.

Investment income of £439m (2013: £493m) was offset by investment expenses of £29m (2013: £31m) and the liability discount unwind of £83m (2013: £97m). The liability discount unwind was lower than 2013 following the reduction in UK discount rates from 5% to 4% at FY 2013. The discount unwind will fall further in 2015 following the reduction in Scandinavian discount rates.

Investment income of £439m is in line with our expectations but down 11% on prior year, primarily reflecting the continued impact of the low bond yield environment.

The investment portfolio grew 3% during 2014 to £14.2bn. At 31 December 2014, high quality widely diversified fixed income securities represented 86% of the portfolio (31 December 2013: 82%). The quality of the bond portfolio remains very high with 98% investment grade and 66% rated AA or above. We remain well diversified by sector and geography.

Average book yield across the whole portfolio fell from 3.5% to 3.1% year on year.

Based on current forward bond yields and foreign exchange rates, it is estimated that investment income will be in the order of £380m for 2015, falling to around £350m in 2016 and 2017. However, with yields at historic lows, these income numbers are sensitive to market changes. This outlook reflects the combined impact of sharply lower bond yields and depreciation of our major overseas operating currencies compared to 2014, together with the ongoing impact of maturing high yield bond positions.

TOTAL CONTROLLABLE COSTS

Total Group controllable costs were down 12% in 2014 (down 6% at constant exchange) to £2.1bn. Core business controllable costs were down 4% at constant exchange to £1.85bn (comprising 6% cost reductions offset by 2% inflation).

The majority of the 2014 core business cost reduction has come from our UK business, with good progress in headcount reductions (510 (7%)) UK full time equivalent (FTE) employee reduction in 2014). Further detailed cost reduction plans are in place for our core businesses. Group FTE was down 16% in 2014 to 19,006 (2013: 22,664), and within our core businesses FTE was down 7% to 17,509 (2013: 18,801).

NON-OPERATING ITEMS

Non-operating items in 2014 amounted to a charge of £90m and included the following.

- Net gains of £476m include £342m of business disposal gains, £69m of gains in respect of the sale of equities mainly in January, £25m relating to the sale and leaseback of our Swedish head office, and £30m of unrealised gains on property assets.
- Non-operating charges of £42m comprise £32m of customer list amortisation and £10m of pension net interest costs.
- Non-recurring charges of £405m include reorganisation costs of £276m, within which were £55m of goodwill write downs (£44m in Ireland and £11m in Russia); £44m intangible asset write downs mainly relating to software write downs in the UK, Ireland and Scandinavia; £110m of redundancy and restructuring costs (£73m relating to redundancy); and a further £67m primarily relating to the revision of estimates. The £67m can be further broken down as follows: the re-estimation of deferred acquisition costs and dilapidation provisions in respect of leasehold properties, resulted in charges of £17m and £5m respectively; a review of the Group's reinsurance accounting

INVESTMENT RESULT

£	2014	2013	Movement (%)
Bonds	**354**	382	(7)
Equities	**23**	47	(51)
Cash and cash equivalents	**29**	25	16
Land and buildings	**28**	28	–
Other	**5**	11	(55)
Investment income	**439**	493	(11)
Investment expenses	**(29)**	(31)	6
Unwind of discount	**(83)**	(97)	14
Investment result	**327**	365	(10)

resulted in a charge of £22m; finally, as a result of a remediation process, better information has become available, which has resulted in revisions to certain accounting estimates and a charge of £23m which predominately relates to Ireland.

- There was also a £98m charge relating to a change in the interest rate used to discount long-tail liabilities in Sweden and Denmark. The decline in market yields for the assets we hold backing these liabilities has required this adjustment. As a result, the discount rate has been lowered in Sweden and Denmark. The UK discount rate of 4% (lowered from 5% at FY 2013) remains unchanged as this remains broadly matched by the yields on the assets backing these liabilities. The assumptions will be re-examined biannually going forward and necessary changes made.

TAX

The Group has recognised a tax charge of £199m for the year. Included in this is a deferred tax asset impairment charge of £92m (£84m relating to the UK and £8m relating to Ireland). This follows the conclusion that the carrying value of the deferred tax assets in the UK and Ireland are no long fully supportable following the resetting of the Group strategy in 2014, together with the issues faced in Ireland. This accounting charge has no economic consequences as the tax losses remain available to us. The carrying value of the remaining deferred tax asset in the UK is £95m, and in Ireland is £5m.

RESERVING

We believe that the culture, methodologies and governance around the Group's reserving process drive a prudent reserving policy and reserves remains significantly to the right side of best estimate. Our own assessment of the margin in reserves for the core Group (the difference between our actuarial indication and the booked reserves in the financial statements) is unchanged at 5% of booked claims reserves, though there have been movements between regional businesses during the year.

In terms of accident year, 2011 and 2012 reserves have shown favourable development across most major lines in Scandinavia, UK Commercial Property, UK Personal lines and Canada. 2009 and 2010 have been impacted by UK Professional Indemnity strengthening. 2004 and prior includes strengthening for UK Deafness reserves and also in UK Asbestos, relating to revisions to estimates of reinsurance recoveries to reflect the latest experience of claims across accident years.

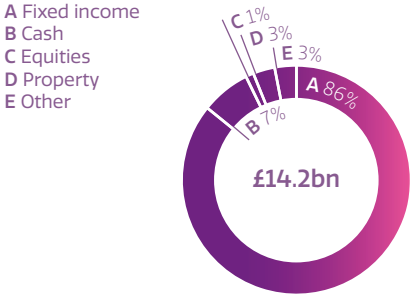
CAPITAL

The Group monitors a range of capital positions. Strategic actions taken during 2014 have driven improvements across these capital measures.

Tangible net assets have increased by 74% to £2.9bn during 2014. The most significant driver of this was the proceeds from the rights issue (£747m net of costs). There were also £474m of post-tax disposal benefit and £255m of fair value gains on available-for-sale assets. Foreign exchange movements on the retranslation of the balance sheets of non-sterling denominated operations gave rise to foreign exchange losses of £85m.

UNDERLYING RETURN ON TANGIBLE EQUITY (%)

COMPOSITION OF INVESTMENT PORTFOLIO (%)



At 31 December 2014, the Group's estimated IGD surplus was £1.8bn giving coverage of 2.2 times the capital requirement. The £1.6bn increase in the surplus during 2014 mainly reflects the impact of the rights issue proceeds, capital generated (including disposal gains), the reversal of a hybrid debt restriction which took effect at the end of 2013, and mark-to-market gains, partly offset by adverse foreign exchange movements.

The Group's estimated economic capital surplus was £0.9bn at 31 December 2014 giving coverage of 1.3 times the

capital requirement. The movement in the year was driven by capital generated including disposal gains and the rights issue proceeds, partly offset by the impact of lower yields, adverse foreign exchange movements, pension movements, and model calibrations.

Diversification provides a significant benefit to RSA within our economic capital model. We analyse our main modelled risks, including underwriting, catastrophe, reserve, market, credit and currency, pension and operational risks. On this basis, the level of diversification generated within our capital model, resulting from the nature of the different types of business written, geographic spread of our business, and the non-correlation of risk events affecting the Group, is around 40% of the undiversified capital requirement.

RATING AGENCIES

S&P and Moody's provide insurance financial strength ratings for the Group and its principal subsidiaries. The Group was upgraded by S&P to A 'stable outlook' in February 2014, and is rated A2 'negative outlook' by Moody's.

PENSIONS

The IAS 19 pension has improved during the year from a deficit of £125m to a deficit of £72m. The UK pension position has improved by £89m during the year to a surplus of £31m, driven by greater than expected returns on assets and contributions, partly offset by changes to actuarial assumptions (the pension inflation rate fell from 3.2% to 2.9% in the year, whilst the discount rate fell from 4.6% to 3.7%), experience losses and service costs. The overseas pension position deteriorated from a deficit of £67m to a deficit of £105m driven primarily by lower discount rates.

At the most recent funding valuations as of 31 March 2012, the three main UK funds had an aggregate funding deficit of £477m, equivalent to a funding level of 93%. The Group and the Trustees agreed funding plans at that time to eliminate the funding deficits by 2022. The funding plans will be reviewed following the next triannual funding valuations, which will have an effective date of 31 March 2015.

The Scheme Actuaries also carry out interim assessments on an annual basis and at the last update as at 31 March 2014 the funding level was estimated to have increased to 97%. This update is not formally agreed between the Group and the Trustees but reflects changes in market conditions and the deficit contributions paid.

For completeness, in addition to calculating the funding valuation, the Scheme Actuaries also provide an estimate of the cost of full risk removal by purchasing annuities from an insurance company to meet the existing retirement obligations. This is a theoretical calculation and does not reflect what we expect to pay into the schemes. In common with most UK defined benefit arrangements, the liabilities and hence deficit on this basis are materially higher than on an ongoing funding basis and as at 31 March 2014 there was estimated to be a shortfall of approximately £3.1bn. This is largely due to the use of more conservative assumptions in relation to future investment return and to a lesser extent, how long members will live. However, the cost of purchasing annuities will also reflect insurers' reserving requirements, cost of capital, profit margins, and supply and demand dynamics.

The purchase of annuities would effectively result in full removal of all economic and demographic risks associated with provision of the liabilities. Alternatively, full removal of investment and economic risk on expected benefit payments could also be achieved through the use of a fully matched swaps based investment strategy. This effectively eliminates the assumed return benefits in the funding basis of equity and credit investments that form part of the asset mix of the funds. The Trustee's investment advisers have estimated that as at 31 March 2014, this would have resulted in a shortfall of £2.4bn. However, under this approach the funds would remain exposed to longevity and other behavioural and demographic risks.

DIVIDEND

We are pleased to recommence dividend payments with a final dividend recommendation of 2p per ordinary share. This is a modest absolute level reflecting 2014 profitability as well as the work remaining on capital build. We reiterate a medium-term ambition of 40–50% dividend payouts.

GROUP OUTLOOK

In 2015, we aim to substantially complete the Group's strategic restructuring and related 'inorganic' capital improvements. Focus will continue on actions to improve core business performance on a sustainable basis.

Foreign exchange moves will continue to impact Sterling reported results. Market conditions permitting, in 2015, we target an end to the shrinkage of core business written premiums. Underlying loss ratios should improve again and costs continue to reduce. Weather and large loss items will remain unpredictable but volatility should be below that of extreme prior years due to reinsurance actions. We expect sustainable prior year releases to be below 1% of premiums, but potentially volatile given our commitment to transparent reserve margins.

We hope to report combined ratios, on an underlying basis, closer to 'market' performance than in recent times. Investment income will trend downwards reflecting market conditions. We anticipate disposal profits from completing non-core transactions, broadly offset by ongoing restructuring and cost programme expenses.

Our medium term 12–15% underlying return on tangible equity target remains in place. Foreign exchange and interest rate impacts from the past 12 months suggest it is more likely to be met in 2017 than 2016, despite a broadly unchanged ambition for combined ratios.

RICHARD HOUGHTON
Group Chief Financial Officer

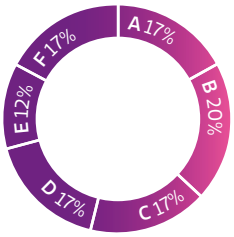
Scandinavia

Our Scandinavian business performed strongly in 2014, both in terms of profitability and growth. Our focus remains on sustaining these strong results whilst driving continuous operational improvements.

PATRICK BERGANDER
CEO Scandinavia

TYPES OF BUSINESS IN SCANDINAVIA

A Household **B** Personal motor
C Personal accident and other
D Commercial property
E Commercial motor **F** Other



£1.8bn
Net written premiums

89.4%
Combined ratio

OUR BRANDS IN SCANDINAVIA

TRYGG HANSA CODAN

OUR OPERATIONS IN SCANDINAVIA

In Scandinavia we operate in Sweden as Trygg-Hansa and in Denmark and Norway as Codan. We are the third largest insurer in Sweden and Denmark, and the sixth largest in Norway, whilst we are third overall across the region. Importantly, RSA is the only multinational insurer operating with scale in Scandinavia.

Our business is split evenly between Personal and Commercial lines and is principally directly distributed with strong agent relationships, call centre capabilities and a growing bancassurance channel. We have particular strengths in Sweden through our Motor and Personal Accident businesses, and our Danish Commercial business, while our Norwegian business is developing.

FINANCIAL PERFORMANCE

Our Scandinavian business performed strongly at an underlying level in 2014. Underwriting profits were £187m (2013: £225m) and the combined ratio was 89.4% (2013: 88.1%).

Net written premiums of £1,759m were up 3% at constant exchange (2013: £1,863m as reported; £1,713m at constant exchange), with volumes flat across the region and rate increases contributing 3% growth.

Personal premiums were up 3% with strong growth of 6% in Swedish Personal driven by Household and Personal Accident due to a combination of good new business levels and rate increases. Danish Personal premiums

were down 4% as we continued our work in 2014 to return that business to stronger profitability. Norway Personal premiums were up 2%.

Commercial premiums were up 2% with growth of 5% in Denmark reflecting strong retention across the portfolio, good new business levels in Workers Compensation and good growth in Renewable Energy. Our strategic partnership in Norwegian Hospital Care insurance continues strongly, and as a result Norway Commercial premiums were up 16% in the year. In Sweden, premiums were down 4% as we continued to take actions to rationalise our Commercial portfolio and increase rate.

The Scandinavian underwriting result was a profit of £187m (2013: £225m) with a current year profit of £166m (2013: £102m) and a prior year profit of £21m (2013: £123m). After including investment returns net of discount unwind of £64m (2013: £85m), the insurance result was £251m (2013: £310m).

In Personal, underwriting profits were £162m with a combined ratio of 83.0%. This mainly reflects a strong performance in Swedish Personal Accident following product enhancements and rate actions. Scandinavia Commercial made a 2014 underwriting profit of £25m and a combined ratio of 96.9%, with good underlying performances across our Danish business and in Swedish Liability and Motor.

OUR STRATEGY

Our strategy in Scandinavia is focused on sustainable profitable returns with three key levers. These are:

1. Driving profitable growth through business targeting, expansion of distribution channels and improving our brand offering;
2. Developing market leading claims and underwriting capabilities; and
3. Driving continuous operational improvement through rigorous cost management and targeted systems and infrastructure investment.

The combined ratio in 2014 was 89.4% (2013: 88.1%). Weather and large loss experience was broadly in line with expectations. The weather ratio of 1.6% is in line with the five-year average, while large losses of 4.7% compare to a long-term average of 5.6% and in part benefit from a change in underwriting mix. The underlying current year loss ratio was noticeably improved in 2014 at 64.8%, 2.7 points better than 2013, and there were good improvements in both Sweden and Denmark. Prior year claims were 1.5%, significantly below 2013 levels but now more normalised for likely future outlook. Controllable expenses are in line with our expectations, and in 2014 we reduced FTE by 5%.

TEACHING WATER SAFETY

Trygg-Hansa's 'Baby buoy' programme teaches small children how to float in water, with the overall aim to reduce the number of drowning accidents. The Baby buoy was developed in 2013 and extended in 2014 by Trygg-Hansa together with The Swedish Life Saving Society (SLS). It is an important part of Trygg-Hansa's focus on water safety in the Swedish market, together with the sponsorship of outdoor summer swim schools and the initiative 'swim school for everyone' where people from other nationalities are trained to become swim school teachers, in order to train others in their native language.

SCANDINAVIA FINANCIAL SUMMARY

	2014 net written premiums		Underwriting result		COR
	£m	% growth[1]	2014 (£m)	2013 (£m)	2014 (%)
Personal	969	3	162	236	83.0
Commercial	790	2	25	(11)	96.9
Total	1,759	3	187	225	89.4
Sweden	956	2	138	153	
Denmark	633	1	47	63	
Norway	170	9	2	9	
Total	1,759	3	187	225	

Notes:
1. At constant exchange.

OUTLOOK

We expect the Scandinavian P&C markets to grow in line with local GDP growth, and we target top line performance broadly in line with the market. Our focus is on sustaining strong Personal lines results in Sweden and improving Commercial lines profitability; achieving significant cost improvements in Denmark; and focusing on profitable growth in Norway.

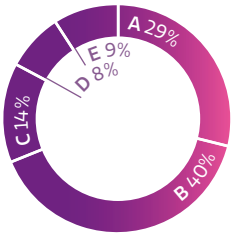
Canada

2014 has been a challenging year for our Canadian business with adverse weather conditions. However, the underlying performance of our business remains supportive of improved future results.

ROWAN SAUNDERS
President & CEO, RSA Canada

TYPES OF BUSINESS IN CANADA

A Household **B** Personal motor
C Commercial property **D** Liability
E Other



£1.5bn
Net written premiums

98.0%
Combined ratio

OUR BRANDS IN CANADA

JOHNSON WA

OUR OPERATIONS IN CANADA

In Canada we are the third-largest insurer, establishing our market position through a combination of strategic acquisitions and organic growth. We are a national insurer, operating across all provinces with a broad multiproduct, multidistribution offering. The market is stable and consolidating with the top 10 insurers accounting for around 65% market share.

Our portfolio is well balanced with Personal lines accounting for around 70% and Commercial around 30%. We have leading positions in Affinity, Travel and Marine. Approximately half of our Personal business is directly distributed through brokers under the RSA brand, and half is distributed through affinity partnerships under the Johnson brand.

FINANCIAL PERFORMANCE

After a record bad year for weather events in Canada in 2013, adverse weather conditions continued into the first quarter of 2014. As a result, 2014 has been challenging for our Canadian business. However, the underlying

OUR STRATEGY

In Canada our strategy is to drive sustainable profitable growth in our targeted segments. We focus on improving our revenue capabilities through enhanced pricing, risk selection and sales capabilities; investing in our technology capabilities and developing industry-leading digital customer offerings; and robust management of our cost base.

performance of our Canadian business remains supportive of improved future results.

Net written premiums in Canada were down 3% on a constant exchange rate basis to £1,510m (2013: £1,755m as reported; £1,553m at constant exchange) with 5% volume reductions partly offset by 2% rate growth.

Personal premiums were down 2%, with a 6% reduction in Motor partly offset by growth of 5% in Household. Household premiums included double-digit rate increases (on renewal business) as the market responded to the weather events of 2013 and early 2014; volumes were down 3%. In Motor, premium reductions reflected the exit of certain broker relationships, lower new business and rate in Ontario, and competitive conditions in Quebec.

In Commercial, premiums were down 5% driven mainly by the actions we have been taking on the portfolio, particularly where we have been re-underwriting or exiting poorer performing accounts. Property reductions of 5% are mainly driven by underwriting actions taken in Quebec, and Liability reductions of 10% are due to the exit of unprofitable programmes and market-leading rating action.

Underwriting profit was £30m (2013: £13m loss) with a current year loss of £8m and a prior year profit of £38m. The combined ratio was 98.0% (2013: 100.7%). After including investment returns of £77m (2013: £93m), the insurance result was £107m (2013: £80m). Ongoing balance sheet work across the Group has included in Canada a more granular segmentation of the portfolio for reserving purposes. This has led to a reallocation of reserves (as reported in August) to better reflect the risk profile of the book, and a £19m release of margin.

The level of weather losses, although lower than 2013, was higher than trend, impacting profitability. The weather loss ratio of 5.0% for the year compares to a five-year average for our Canadian business of 4.3%. Personal Household and Motor were both affected by the weather, with Motor experiencing elevated claims frequency as a result of severe driving conditions in the first quarter.

In Commercial, the reallocation of reserves in the first half resulted in an increase in Liability reserves and a release in Motor, impacting their respective results. Property profitability remains under pressure given a highly competitive market, with adverse weather and large loss experience impacting results. At a total Canadian level, the large loss ratio was 3.6% in 2014 compared to a five-year average of 3.0% and a 2013 ratio of 3.3%. The current year underlying loss ratio was 62.8% (2013: 62.1%).

DRIVEN TO DISTRACTION

Motoring research by RSA Canada showed that distracted drivers are three times more likely to be in an accident than attentive drivers and that 20–30% of all collisions involve driver distraction. We wanted people to think about what they are doing behind the wheel. So we surveyed drivers across the country, and despite increased attention on distracted driving in almost every province, drivers are simply not getting the message to pay attention to the road.

Our survey found that almost every Canadian driver has witnessed other drivers talking on the phone, and 80% have witnessed drivers texting. Yet only 22% admit to talking and 13% admit to texting while behind the wheel. Despite public awareness campaigns, and in Ontario increased fines and demerit points for those convicted, distracted driving is still a huge issue.

As a result, RSA Canada made these findings public and initiated a campaign of driver advice ahead of public holidays in May 2014. The research and campaign was one of RSA Canada's most successful in terms of media coverage, with exposure in over 250 publications, the advice reaching a potential audience of 26 million people.

CANADA FINANCIAL SUMMARY[1]

	2014 net written premiums		Underwriting result		COR
	£m	% growth[2]	2014 (£m)	2013 (£m)	2014 (%)
Personal	1,039	(2)	11	29	99.0
Commercial	471	(5)	19	(42)	96.0
Total	1,510	(3)	30	(13)	98.0

Notes:
1. During 2014 we sold Noraxis, a brokerage contained within our Canadian business. The numbers above exclude Noraxis.
2. At constant exchange.

OUTLOOK

2014 has been a challenging year for RSA in Canada. However, we anticipate the business returning to better performance patterns, subject to volatile items such as weather trends. Our focus will be on delivering operational improvement, particularly underwriting and claims improvements, process simplification and modernisation of technology and infrastructure.

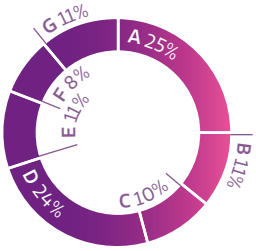
UK[1] and Ireland

In the UK, we have made good progress in 2014 with underwriting and portfolio actions as well as operational improvements. In Ireland, it has been a further difficult year as we continue our recovery process.

STEPHEN LEWIS
CEO, UK & Western Europe

TYPES OF BUSINESS IN THE UK

A Household **B** Personal motor **C** Pet
D Commercial property **E** Liability
F Commercial motor **G** Marine and other



£2.6bn
UK net written premiums

99.5%
UK combined ratio

OUR BRANDS IN UK AND IRELAND

MORE TH>N® RSA
123.ie

OUR OPERATIONS IN UK AND IRELAND

In the UK, we are the second largest Commercial insurer with key positions in Property, Motor, Liability, and Marine, and exposures across the SME, Mid-Market and Global Specialty customer segments. We operate across the key UK market centres, as well as six European locations. We are a leading international Marine player through the London markets.

We also have strong positions in the UK Personal Household, Motor, and Pet markets. We have a direct insurance offering through our MORE TH>N brand, and a broker portfolio focused on profitable segments. We also have affinity relationships with some of the major UK retailers.

We are a leading player in Ireland with particular strengths in Household insurance and in direct sales through our 123.ie business.

UK FINANCIAL PERFORMANCE

In the UK, we have made progress with management action on pricing and underwriting that included both planned exits and focused growth. Adverse weather in the first quarter together with reserve additions in Commercial have affected profitability. However, expenses are coming down and the good progress made with cost reductions in the first half has continued into the second half, including a reduction of over 500 (7%) FTE during the year.

At a headline level, UK premiums of £2,569m were down 15%. However, premiums excluding Motability were down 6% with Personal down 6% and Commercial down 6%.

[1] Excluding Legacy

Household premiums were down 3% reflecting competitive conditions and a softening rate environment. In Personal Motor, premiums were down 26% as a result of our portfolio actions and pricing discipline, although the steep declines seen in the first half have now begun to slow. Excluding planned exits, motor premiums were down 11%. In 2014, we launched our MORE TH>N Smart Wheels 'black box' telematics product aimed at young drivers, and MORE TH>N Drive, an app that allows drivers to track their driving behaviour, which are showing promising growth. Pet premiums were up 16% although the underlying movement after removing prior period accounting premium adjustments was 9%, mainly driven by rate increases.

Across Commercial we have maintained underwriting discipline in a competitive market and a soft rate environment. Reported premiums were down 22% to £1,393m, primarily driven by a reduction in Motability premiums as a result of our new contract terms which took effect from 1 October 2013 (Motability net written premiums in 2014 were £57m versus £351m in 2013) and a reduction in Marine mainly due to adjustments to prior year premiums after a change in accounting methodology. We ceased writing Specialty Lines business in Germany with effect from 1 October 2014, but continue to actively write and grow our Marine business there. SME, one of our areas of focused growth, grew 9% over last year and targeted activity in Engineering delivered 4% growth.

The UK underwriting result was a profit of £15m (2013: £13m). The current year profit of £17m represents our strongest current year result in the UK since 2005, and includes a Personal profit of £26m and a Commercial loss of £9m. The prior year loss of £2m includes a loss of £25m in Commercial and a profit of £23m in Personal.

OUR STRATEGY

In UK Commercial, our strategy is to grow the business profitably, focusing on our revenue generating capabilities and expense reductions. In UK Personal we will continue to focus our business on our target segments while significantly reducing our cost base and improving our capabilities. In Ireland we have some important market positions upon which future success can be built, but we will need to invest to achieve market-leading capabilities in pricing and data, underpinned by systems simplification.

SUPPORTING SOCIAL ENTERPRISE

Our CSR strategy seeks to deliver commercial and societal benefits. To meet this objective and in line with our Commercial strategic focus on SMEs, we have established a unique partnership with School for Social Entrepreneurs (SSE) that's delivering positive impacts for our business, our people, SSE, entrepreneurs and ultimately our communities.

SSE supports individuals to set-up businesses with a social purpose. By taking part in SSE's programmes, social entrepreneurs are able to transform their talent into sustainable solutions to poverty and disadvantage. Over the three-year partnership we are providing bursaries to fund social entrepreneurs through the SSE Fellowship Course. We are also providing senior RSA mentors to support the students. Graduates of the Fellowship Course are 20% more likely to survive for five years than traditional UK business.

In 2014, this partnership won the Chartered Insurance Institute Public Interest Awards, 'Best corporate social responsibility initiative'.

UK AND IRELAND FINANCIAL SUMMARY[1]

	2014 net written premiums		Underwriting result		COR
	£m	% growth[2]	2014 (£m)	2013 (£m)	2014 (%)
UK Personal	1,176	(6)	49	44	95.9
UK Commercial	1,393	(22)	(34)	(31)	102.1
Total UK	2,569	(15)	15	13	99.5
Ireland	295	(5)	(107)	(220)	132.3

Notes:
1. During 2014 we reclassified UK Legacy business as 'non-core'. It has therefore been excluded from the UK figures above.
2. At constant exchange.

Household continued to perform strongly with a £65m profit despite adverse weather in the first quarter, while a £7m loss in Motor reflected a highly competitive market but nevertheless a significant improvement from the 2013 loss of £41m. Pet profitability was disappointing due to higher than expected claims inflation, for which we have implemented rating and indemnity actions to address.

The UK Commercial underwriting loss of £34m is driven by the adverse development of the prior year Professional Indemnity book (£46m) which we reported on at both H1 and Q3. Our Property book suffered an underwriting loss of £8m driven by heavy weather losses following storms in January/February and also in June in Europe, plus marginally elevated large losses. Commercial Motor produced a significantly improved COR of 94.7% reflecting better performance across the book.

The UK combined ratio was 99.5% (2013: 99.6%). The weather ratio of 3.8% was 0.8 points higher than 2013 and 0.5 points higher than the five-year average for the UK business. The large loss ratio of 12.9% was 0.3 points lower than 2013 and 2.0 points lower than the five-year average. The current year underlying loss ratio improved by 1.2 points against the same period last year to 49.0%.

IRELAND FINANCIAL PERFORMANCE

In Ireland, it has been a difficult year for RSA in recognising further losses for events announced in 2013 and beginning the recovery process. The 2014 underwriting loss was £107m, recorded as a current year loss of £62m and a prior year loss of £45m.

No substantive new issues were found in 2014, however the cost of remediation, reserve strengthening and the level of required underwriting improvement has been greater than that expected at the start of the year.

The current year loss of £62m reflects the ongoing impact of the issues identified in 2013, in particular inadequate pricing on pre-remediation business that came through in earned premiums. Once claims reserving was more fully remediated during 2014, it became apparent that in key portfolios loss ratios were higher than expected and loss patterns have remained volatile as data is cleansed and new patterns established. Pricing and underwriting action taken in 2014 should earn through into significant further loss ratio improvement in 2015.

The 2014 weather ratio of 5.8% was in line with long-term trends but marginally worse than plan, while the large loss ratio of 3.4% was 1.1 points worse than trend.

The prior year loss of £45m reflects a combination of updated reserving judgements from 2013 events in light of the latest development experience, and some specific factors including the remediation of a specific delegated authority scheme, changes to reinsurance retentions, and the impact of lower discount rates following a High Court ruling in December.

Our remediation work is ongoing, and we remain confident that the actions we are taking will restore the business to profitability.

The Irish executive management team has been completely restructured and we have made good progress in filling critical management vacancies with a new CEO, CFO, COO and Chief Underwriting Officer now in place.

Cost reduction plans are in place, and underwriting actions should improve current year underwriting performance to a profit in 2016. Reserving actions are now largely complete, although some 2015 impact remains possible.

On pricing we have applied strong rate increases during 2014 in key lines requiring remediation, with year-on-year rate increases of c.25% in Motor and c.15% in Liability. As a result of this focus, premiums for the year were down 5% at constant exchange.

During 2014, we have undertaken an impairment review of the carrying value of Irish goodwill and intangible assets. As a result we have written down £44m relating to goodwill and £17m relating to software and customer lists. This leaves £54m of goodwill and intangible assets in the Irish business. In addition to this we have also written down our Irish deferred tax asset by £8m leaving a remaining tax asset by £8m leaving a remaining tax asset of £5m.

OUTLOOK

In the UK, continuing improvements in our core trading performance together with ongoing cost actions give us confidence as we look out to 2015. We target improving profitability and a return to modest top line growth.

In Ireland, our goal remains to return the business to profitability in 2016 through underwriting improvement and cost reduction, and from there to return to greater than cost of capital returns in the future.

UK Legacy

Our UK Legacy portfolio comprises exposure to asbestos and other long term liabilities. Our exposure to these claims arises from Employers and Public Liability policies written over the past 50 years. While these account for the majority of liabilities, the portfolio also includes a variety of London Market related legacy liabilities.

The UK Legacy underwriting result for 2014 was a loss of £48m (2013: £19m loss) and was primarily driven by a combination of asbestos, deafness and 'abuse' reserve additions. The asbestos additions are mainly due to revisions to estimates of reinsurance recoveries to reflect the latest experience of claims across accident years.

At 31 December 2014, UK Legacy net reserves were £1bn (with a discounted value of £0.6bn).

ASBESTOS

Asbestos technical provisions (before discounting) include £829m (31 December 2013: £831m) for asbestos in the UK comprising £778m (31 December 2013: £778m) for UK risks and £50m (31 December 2013: £52m) for US risks written in the UK. As in previous years, and as a standard part of our reserving practices, these asbestos provisions have been reviewed by external consultants. These provisions can be analysed by survival ratio.

Survival ratio is an industry standard measure of a company's reserves, expressing the number of years that carried reserves will be available if the recent year payment or notification levels continue. The table below outlines the asbestos provisions as at 31 December 2014 analysed by risk and survival ratio.

One year average ratios are inherently more volatile and impacted by the size and timing of payments or notifications in the year, with the three-year average providing a more stable benchmark. For UK risks written in the UK, the paid survival ratios have remained stable, with the incurred survival ratio impacted by changes in the level of notifications from year to year. We continue to monitor notification levels closely. For US risks written in the UK, the remaining reserves are relatively small in total and will therefore be particularly sensitive to changes in notifications or the size and timing of claims payments and settlements during the year.

ASBESTOS RESERVES

	Total	UK risks written in the UK	US risks written in the UK
Provisions in £m			
Net of reinsurance	**829**	778	50
Net of discount	**506**	465	41
Survival ratios (Gross of discount) – On payment			
One year	**29**	32	12
Three-year average	**30**	32	14
Survival ratios (Gross of discount) – On notifications			
One year	**25**	25	18
Three-year average	**23**	25	10

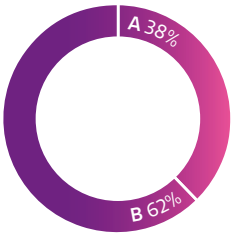
Latin America

In Latin America, the markets we operate in continue to be fundamentally attractive, driven by growing insurance penetration. Performance in 2014 reflected competitive conditions and the earthquake in Chile in April.

HILARIO ITRIAGO
CEO, Latin America

TYPES OF BUSINESS IN LATIN AMERICA

A Personal B Commercial



£0.7bn
Net written premiums

100.3%
Combined ratio

OUR OPERATIONS IN LATIN AMERICA

RSA is a top 10 international insurer in Latin America. We are geographically diversified with leading positions in Chile (no. 1 market position), Argentina (no. 7), and Uruguay (no. 2). We have a leading niche position in the Brazil Marine market, and businesses in Mexico and Colombia. Although economic growth in the region has slowed, the non-life insurance market continues to offer attractive growth prospects.

Our business is 38% Personal and 62% Commercial. Around 70% of our business is distributed through brokers with the remainder predominantly through affinity partnerships. We are a leading affinity insurer in the region with a strong track record in the finance, retail and motor segments.

FINANCIAL PERFORMANCE

Net written premiums in Latin America were up 4% on a constant exchange rate basis to £690m (2013: £837m as reported; £662m at constant exchange) with 1% volume growth and 3% rate growth. The impact of foreign exchange has been significant, with premiums down 18% at reported exchange rates.

There was strong growth in Argentina of 32% driven by the high inflation environment, and growth of 15% (or £6m) in Uruguay. Brazil premiums were up 2% in a competitive market. We have also taken action to restructure the business which includes the exit of Risk Managed Property, Construction and Engineering and Liability. In Chile premiums were flat due to soft market conditions and actions taken on our Motor portfolio.

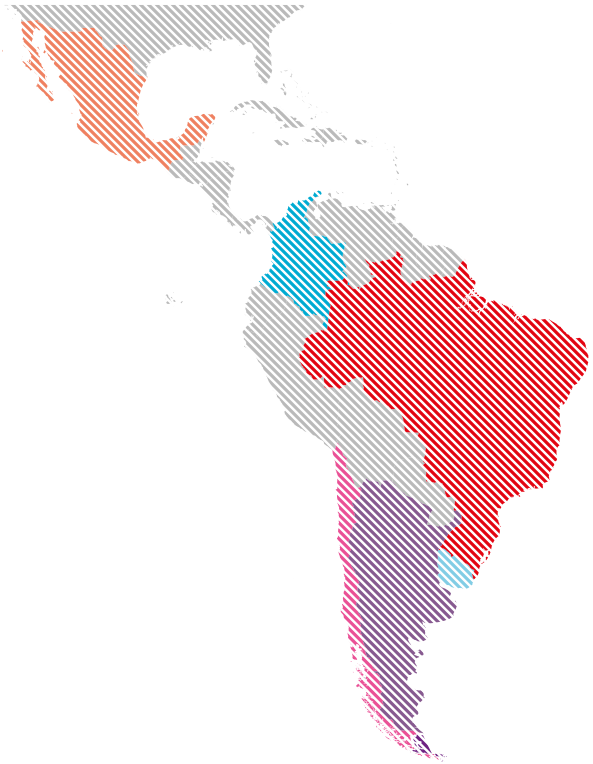
During the year we have restructured our business in Colombia. We have announced the exit of Personal and Commercial Motor, and intend to pursue profitable growth in non-Motor Commercial lines and affinity schemes. As a result, premiums were down 31% in the year.

The underwriting loss of £2m includes £10m in respect of the Chile earthquake in April (a further £8m is included in the Group Re result bringing the total event cost to £18m) and several other large losses. The large loss ratio of 3.6% is 1.2 points higher than the five-year average, whilst weather losses of 0.3% are better than the five-year average of 0.9%.

OUTLOOK

In Latin America, the markets we operate in continue to be attractive on a fundamental basis, though competitive, driven by low insurance penetration and a growing middle class across the region. Given the softer economic outlook, we anticipate growth continuing at a more subdued pace than historical levels, with improving profitability targeted.

OUR FOOTPRINT IN LATIN AMERICA



LATIN AMERICA FINANCIAL SUMMARY

	2014 net written premiums		Underwriting result		COR
	£m	% growth[1]	2014 (£m)	2013 (£m)	2014 (%)
Chile	166	–	(4)	17	102.4
Argentina	210	32	10	(1)	94.9
Brazil	119	2	(13)	3	110.9
Mexico	88	(4)	2	3	97.2
Colombia	61	(31)	1	(1)	99.1
Uruguay	46	15	2	(1)	94.7
Total Latin America	690	4	(2)	20	100.3

Notes:
1. At constant exchange.

OUR STRATEGY

Our strategic aim is to become a sustainable player delivering attractive returns on capital in our chosen markets supported by initiatives across three key areas:

1. Developing our customer and distribution relationships;
2. Maintaining technical underwriting discipline; and
3. Maintaining tight control on costs across the region together with improvements to our technology capabilities.

Our people, our culture

In 2014, we continued to put our strong levels of employee engagement to the test. Our people reacted quickly and rose to the challenges we faced by continuing to support our customers when they needed us.

Our people have continued to work hard to meet the challenging deadlines set following the business review in early 2014. They have embedded the necessary changes required and responded well to all the new policies we have implemented, while endeavouring to improve the customer experience and increase shareholder confidence.

OUR PEOPLE

As a result of business disposals and actions to reduce our expense base, our permanent full-time equivalent (FTE) employees across the Group reduced by 3,658 to 19,006 – a 16% reduction. Once we have completed our disposals we anticipate that FTE across the group will reduce to around 17,000.

This period of change and uncertainty has been difficult for our people, but we have maintained our commitment to be open, honest and to communicate early about any changes that impact them.

We have also continued to work closely with our Union partners around the world and have consulted fully on all changes.

The Group has maintained its commitment to foster an environment where diversity is embraced and encouraged. In 2013, we committed to strengthening our pipeline of women in senior leadership positions.

The initiatives we launched in 2013 to improve the diversity of our workforce – including our global female sponsorship programme, female networking events and mentoring programmes, enhanced flexible working opportunities and the increased intake of women on our global talent programmes – are starting to pay off and build foundations for the future.

DEVELOPMENT

Despite the challenges and desire to reduce expenses, we have continued to focus on the development of our people. In 2013, we refreshed our leadership development programmes and now have world-class externally recognised programmes in place to support the development of our people globally at all levels:

- **The Executive Development Programme (EDP)** – focuses on increasing the leadership capabilities of senior employees regarded as having the potential to be among the future top leadership of the Group.
- **The Senior Talent Acceleration (STA) Programme** – designed to enable high-potential leaders to make the transition to senior and executive leadership roles.
- **The Fast Track Programme** – is styled on a 'Mini-MBA' to support our emerging talent to accelerate their careers in RSA.

As a result of our commitment to developing our people, we have been able to retain our critical talent during what has been a period of change and uncertainty across the Group. During 2014, our global 'regretted turnover'

NUMBER OF FULL-TIME EMPLOYEES AT THE END OF 2014

Country	No. of FTEs	Percentage of Group total
UK	6,901	36
Ireland	828	4
Scandinavia	3,439	19
Canada	3,577	19
Latin America	2,431	12
Emerging Markets	773	4
Group Corporate Centre	268	1
Other	789	5

FEMALE REPRESENTATION THROUGHOUT THE COMPANY[1]

BOARD

2013	20% (2)
2014	22% (2)

SENIOR MANAGEMENT

2013	28% (259)
2014	28% (284)

GROUP EXECUTIVE

2013	16% (2)
2014	17% (2)

TOTAL GROUP

2013	52% (12,132)
2014	49% (10,655)

[1] Based on total Group headcount

63%

In 2014, 63% of our senior executive roles were filled with internal candidates.

26%

Of the 42 participants who completed the 2014 STA programme, 26% have already moved into new roles within the organisation.

48%

Our 2014 Fast Track cohort has seen 48% of its members secure promotion or moves into new roles within the Group.

(which we define as the resignations of either high performers or people with high growth or growth potential to do bigger roles) was 2.1% – well below the 5% external industry benchmark.

We have continued to use our long established and award-winning Technical Academy to develop and enhance our critical insurance skills across the Group. As a result we continue to have some of the strongest underwriting, pricing, actuarial and claims capability in our industry.

We have also focused on building our skills and expertise in new areas such as our Digital and Telematics Centres of Excellence. This is already yielding strong results.

OUR CULTURE

At RSA, we have always encouraged an open and honest culture that fosters trust and respect between our employees and between us and our customers, brokers and partners. Given the business challenges we have faced, this year we have placed greater importance on creating an internal environment where people's voices are heard, by introducing a number of new platforms for them to use.

We have introduced a new annual employee survey called Yoursay, which gives people an opportunity to 'shout out' about the things they want to improve or change. We have had over 80,000 'shout out' verbatim comments and this will provide us with valuable insight for the year ahead and the improvements we can make.

We have introduced Yammer (an internal social enterprise network) within the UK as a place where people can connect openly and honestly to debate issues and ideas. Over 90% of people have registered and we have, on average, 10,000 comments posted every month. Our plans are to roll-out Yammer to all of our countries during 2015.

We have strengthened our culture by introducing an award-winning Culture Risk Index and Assessment across the world, which helps leaders and HR teams to identify and manage cultural health and identify potential issues around culture that could lead to a failure of ethics, controls or governance before they occur.

We continue to embed our customer obsession and the expectations of our people that support this, by ensuring its integral to every aspect of the employee life cycle. Our obsession for customers guides our decision-making and this focus is underpinned by robust performance management processes. All employees are set clear annual goals – the what – as well as having to live up to our 'expectations' of employee behaviour – the how.

We believe we can create competitive advantage by building and maintaining a customer-centric culture that is open and transparent, where high performance is recognised and rewarded, and appropriate actions are taken to address underperformance.

Corporate responsibility

Our Corporate Responsibility (CR) strategy addresses the company's most material social and environmental issues. Our approach is based on our commitment to making a positive impact on society, with our customers, employees, and partners.

As a leading company in the business of risk and protection, we have a responsibility and a commercial imperative to help our customers' and society as a whole, manage the implications of a changing climate and demographic, and social trends. This presents us with both opportunities and risks.

In 2013, we developed and implemented a new five-year strategy for CR, with associated targets. The approach responds to the sustainability issues identified as most material to our business, customers and other stakeholders, now and in the future. More detail on the issues and the materiality process can be found on the CR section of our website.

Our recovery plan has changed the shape of our business and challenged our ability to meet some of the long-term targets we set in 2013. We may therefore not make quite as much progress as we envisaged over the short term. We will reassess the appropriateness of our long-term targets at the end of 2015.

However, this does not change our commitment to addressing the fundamental issues that impact our customers and the communities we operate in. In 2014, we made significant progress towards meeting our goals and making a positive difference. Highlights are included throughout this report and in this section.

SUSTAINABLE FUTURE

Globally we have seen more annual weather-related catastrophes in the past few years than in the previous 30 years. Scientific research indicates that extreme weather events are expected to be more frequent and more severe in the future. Helping people, businesses and communities cope with extreme weather such as floods, droughts and storms will be increasingly important to our business.

OUR RESPONSE

We take action to support the transition to an environmentally sustainable world by helping our customers respond to changing risks and promoting new ways of working that save energy and resources and create less waste.

OUR PROGRESS 2014 (TARGET: 2018)

- **On target:** Reduce our carbon emissions by 20% per employee
- **On target:** Support customers through the development of products and services that help them respond to changing environmental risks and opportunities

In addition to responding to high levels of weather-related claims this year, we have taken proactive measures to help customers increase their resilience to extreme weather events, including weather warnings and advice using digital communications.

We also play a significant role in the development of the renewable energy sector. We insure the manufacture of more than 25% of all wind turbines and provide cover to around 80% of the operational offshore wind farms. Around the world we work with industry and environmental groups to promote renewables as a critical part of the energy mix for a low-carbon future.

We have also made progress in reducing the environmental impact of our operations. The Group-wide focus on costs and efficiency has contributed to a lower carbon footprint in 2014, with a substantial reduction in business travel.

SAFE, SECURE WORLD

Our products help make communities safer places to live, work and travel. Motor insurance is a substantial part of our business and we have a clear responsibility in making the world's roads safer. The statistics are bleak; more than a million people are killed in traffic accidents each year and 50 million injured. Global road fatalities are forecast to triple by 2030.

OUR RESPONSE

We work to protect millions of people around the world every day, helping them to live safer, more secure lives.

OUR PROGRESS 2014 (TARGET: 2018)

On target: All countries in which RSA operates will be running at least one annual road-safety campaign

This year 13 countries ran major road-safety campaigns, with all of our Core countries participating. These campaigns provide road-safety advice to millions of people.

THRIVING COMMUNITIES

Our customers and our businesses prosper when they are part of thriving communities. We look to create positive social impact wherever we do business. Through our CR activity we are concentrating on a double challenge common to many of our countries: youth unemployment, and the need to develop the enterprise skills vital for economic growth.

OUR RESPONSE

We use the experience of our staff to provide practical support in the development of employability skills among young people in our communities. We support the development of social enterprise through business mentoring and enable our staff to support causes they are passionate about, providing matched funds and time off for volunteering.

OUR PROGRESS 2014 (TARGET: 2018)

Behind target: Over the next five years we will double our annual community contribution

GREENHOUSE GAS EMISSIONS FOR RSA INSURANCE GROUP (TONNES OF CO_2e*)

	2014	2013
Scope 1 Ⓐ	12,279	12,968
Scope 2 Ⓐ	24,717	25,787
Scope 3 Ⓐ	16,376	23,901
Total gross Ⓐ	53,372	62,656
Gross tonnes CO_2e per FTE	2.4	2.6
Carbon offsets (UK and Ireland)	21,827	27,278
Total net emissions	31,545	35,378

Notes:
* Group carbon dioxide equivalent emissions (tonnes)

Scope 1: All direct GHG emissions. Scope 2: Indirect GHG emissions from consumption of purchased electricity, heat or steam. Scope 3: Other indirect emissions

Selected key social and environmental data for 2014 as indicated by the symbol Ⓐ has been independently assured by PwC under the ISAE 3000 standard. For further information, please refer to our reporting criteria and PwC's assurance opinion which can found on our Corporate Responsibility pages at www.rsagroup.com/rsagroup/en/corporate-responsibility

GEOGRAPHICAL BREAKDOWN OF GREENHOUSE GAS EMISSIONS FOR 2014 (TONNES OF CO_2e*)

	Scope 1	Scope 2	Scope 3
Canada	1,544	2,343	2,887
Latin America	1,339	2,085	2,010
Scandinavia	871	2,046	3,743
UK and Ireland	5,579	11,059	5,190

Notes:
This assessment has been carried out in accordance with the World Business Council for Sustainable Development and World Resources Institute's (WBCSD/WRI) Greenhouse Gas Protocol; a Corporate Accounting and Reporting Standard, together with the latest emission factors from recognised public sources including, but not limited to, Defra, the International Energy Agency, the US Energy Information Association, the US Environmental Protection Agency and the Intergovernmental panel on Climate Change.

During 2014, we donated £1.1m to charitable causes and 6,691 employee volunteering hours.

More of our volunteering hours this year were directed towards skills-sharing opportunities, focused on education, employability and enterprise. We believe that sharing the skills that exist in the business will be more beneficial for both our people and our communities. The feedback from staff who have participated in these activities has been positive; 90% of RSA volunteers 'agreed' or 'strongly agreed' they had developed their own skills following an employability workshop; 100% of RSA volunteers 'agreed' or 'strongly agreed' that they would recommend this type of volunteering opportunity to colleagues.

For further detail regarding our Corporate Responsibility strategy, visit us online at: rsagroup.com/corporate-responsibility

Our CR strategy is underpinned by our governance structure and policy framework. Ultimate responsibility rests with our Group Chief Executive and our CR Committee. Our CR policies cover Environment, Community and Charity, and Human Rights risks. They form part of our wider risk framework, with compliance reviewed by the Group Executive Committee and Group Board. Our CR policy positions can be read on the CR section of our website. Our key non-financial data is assured annually by external auditors. More detail on how we report can be found on the CR section of our website.

Risk management

The future success of the Group is underpinned by our conservative risk profile and clear risk appetite.

RISK MANAGEMENT APPROACH

We take a broad view of the scope of risk management, which is taken to include the risk of underperformance as well as adverse events and the failure of processes.

This approach is reflected in our risk appetite statement and key risk indicators, which cover all aspects of our strategic objectives. The risk appetite statement is updated annually in line with the strategic review. It is supported by more granular portfolio strategy statements for each of our underwriting portfolios, setting out our preferred segments and products as well as those that are outside the core appetite.

The Board is closely involved in risk management via the Board Risk Committee which meets quarterly (see pages 73 to 74). The quarterly risk reports monitor the status of all risks and forms an integral part of our ORSA process.

More detail on how we manage different types of risk is set out in pages 137 to 150.

PRINCIPLES

Simple objectives

- Create value for all stakeholders
- Focus on general insurance in our selected markets
- Commitment to sustainable, profitable performance.

Clear risk appetite

- Underwriting and operating excellence
- Strong control environment
- Tight financial management
- Protecting and managing the Group's reputation.

Robust governance, control and reporting

- Comprehensive policies, procedures and controls
- Clear delegation of authorities
- Robust lines of defence
- Regular and relevant reporting and assurance processes.

OUR RISK MANAGEMENT IN PRACTICE

1. MAJOR EVENT ROOT CAUSE ANALYSIS

The Group Risk team use a cause – event risk map to identify the root causes of material risk events and learn the lessons from them.

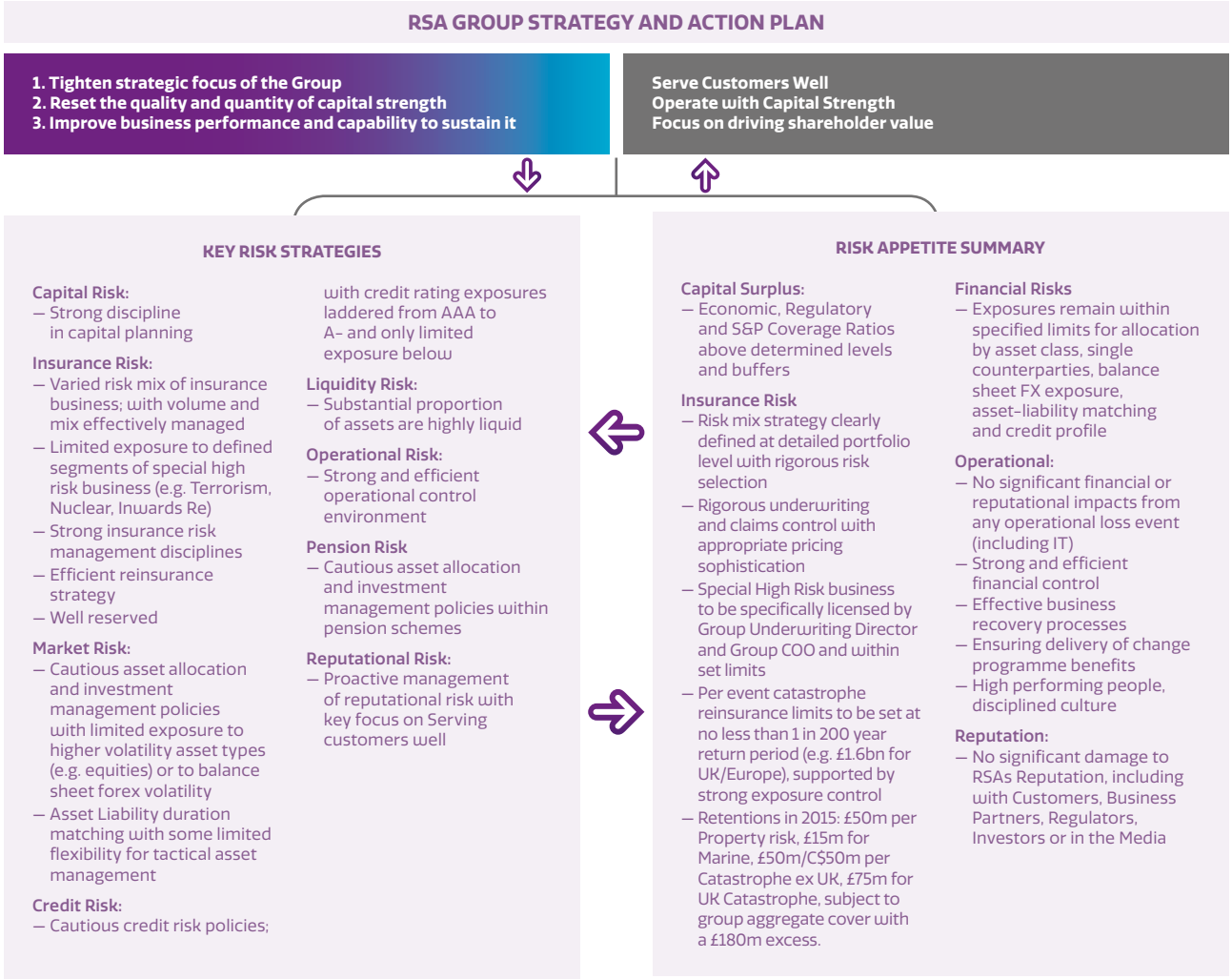
This goes beyond identifying process failures and traces further back to identify the underlying internal management causes of significant events such as culture, leadership behaviour and reporting lines. The major event root cause analysis process helps to embed learnings across the organisation to ensure that similar events do not reoccur.

2. CULTURAL HEALTH INDEX

The Group Risk and HR teams worked together to create an index of positive and negative indicators to help senior leaders spot the early warning signs of cultural risk.

The index is based around the levers that determine culture, including leadership, communication, and decision making. The index is brought to life through a quarterly process which involves senior HR, Audit and Risk leaders working together to discuss their assessments on the health of the culture and agree mitigating actions. Importantly, the index and process gives people the language to name the behaviours that they may intuitively feel, a permission to flag concerns, and a framework for ensuring these conversations take place regularly.

RISK STRATEGY AND SUMMARY RISK APPETITE



OUR RISK MANAGEMENT IN PRACTICE: REVIEW OF INTERNAL CONTROL SYSTEM

In 2013, RSA found financial and claims irregularities in its Irish business. Following these an independent review by PWC was commissioned to satisfy the Board and shareholders that the problems in Ireland were not to be found elsewhere in the Group.

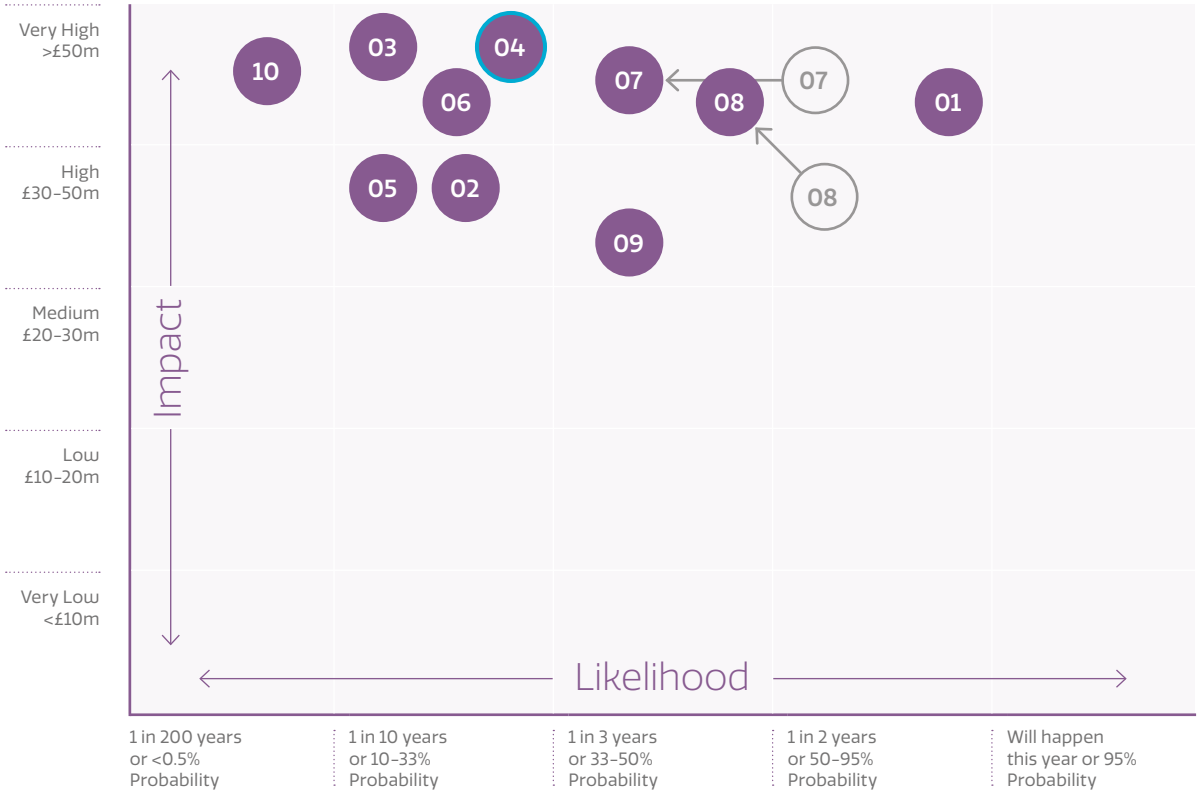
In January 2014, the results of the PWC review were published. This described the Group System of Governance, which includes the Control Framework, as appropriate in terms of structure and design for an international insurance group of RSA's size and complexity, and elements of its design compare favourably across the market. The effectiveness of the framework as it related to Ireland was weakened due to independent controls not operating effectively.

PWC confirmed that the framework is built on the good market practice of three lines of defence, is designed to have multiple reinforcing layers with a comprehensive network of policies, clear accountability including through self-certification, a framework of business controls and a range of additional assurance processes.

This notwithstanding, the Group Audit Committee and Board Risk Committee Chairmen set up a Global programme, led by the Group Risk function, to enhance the effectiveness of the Internal Control System.

This programme has enhanced control and assurance processes across eight key functions in our business. This involved improving the clarity of our risk policies, as well as advancing the organisation's understanding of the control framework and how the three lines of defence operate. We have made explicit the minimum requirements expected in each business with regard to controls and the first line control checking that must take place.
We have also strengthened our second line assurance processes that are independent of first line regional management. We have restructured our Group and Regional Risk teams to make sure there is focus on both enterprise risk management and oversight of the internal control framework.

GROUP STRATEGIC RISK PROFILE



GROUP STRATEGIC RISK PROFILE

Solid border denotes new risk

Arrow shows movement of risk since previous report

DISTRIBUTION OF QUANTIFIABLE RISKS

Our internal model provides a quantification of the total amount of risk borne by the Group, expressed as the amount of capital required to enable it to meet all liabilities to a confidence level consistent with the Group's target 'A' rating.

By analysing the cashflows in our model, we can assess the extent to which the overall level of risk is attributable to broad categories of risk.

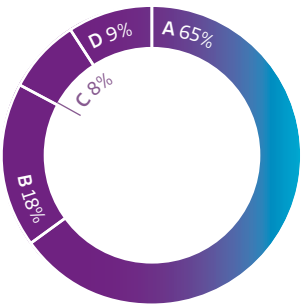
Consistent with our strategy and appetite, the majority of the Group's risks relate to insurance, comprising higher than anticipated underwriting losses, net catastrophe losses and reserve deterioration.

Our conservative investment strategy means that investment risk forms a relatively small proportion of our overall risk compared with the industry. This indicates exposure to financial market risks arising from unhedged inflation, and currency and other exposures in our insurance operations.

Within our defined-benefit pension schemes we have progressively reduced risk over a number of years through a succession of significant de-risking actions; however, due to the large size of the schemes relative to the business, they still present a material exposure, currently exacerbated by the economic environment producing a prolonged period of low real-yields.

ECONOMIC CAPITAL BY TYPE OF RISK

A Insurance Risk
B Investment Risk
C Operational Risk
D Pension Risk



Risk ID/Owner	Risk Description	Controls/key mitigants/actions	Likelihood change in year
01 (R Houghton)	Impact of negative long-term macro-economic trends, financial market volatility and/or persistent low yields, including impact on pension scheme position particularly of low real yields	· Geographic diversification · High quality, low-risk investment strategy and portfolio · Pension de-risking actions taken, and ongoing Trustee dialogue on future action · Tactical actions to mitigate reduction in yields · Defensive positioning to challenged Eurozone economies	⟷
02 (D Coughlan)	Systemic failure in, or obsolescence of, pricing, underwriting and claims processes	· Granular MI on rating and claims trends · Underwriting strategy statements, licence and controls · Ongoing development of portfolio classification and pricing tools · Quarterly Business Reviews and BRC governance · Accumulation management and large loss review actions	↓
03 (R Houghton/ Regional CEOs)	Insufficient capital generation over medium term to support dividend and strategy or to cover any increase in capital requirement	· Delivery of UK strategy and other regions' operational plans · Capital and risk reduction actions taken in Q1 2014 and ongoing business review including disposals · M&A moratorium · Achieving Internal Model approval	⟷
04 (R Houghton/ D Weymouth/ P Bergander)	RSA fails to secure Solvency II internal model approval, all or in part, by Q4 2015, resulting in a requirement to enter SII regime on a Standard formula basis for a material additional capital requirement	· Ongoing dialogue with regulators to resolve questions · Model governance and validation processes · Maintain core Solvency II programme · Continue to work with local teams to deliver Group and local Internal Model Approval work plan	N/A
05 (V Evans)	Failure of reward systems to align with corporate aspirations and external stakeholder expectations	· Remuneration committee governance · Review of remuneration system · Investor and media relations	⟷
06 (R Houghton/ Regional CEOs)	Failure to align shareholder expectations with strategy, execution and financial performance	· Robust strategic and operational planning processes · Delivery of operational plans · Robust management of underperforming businesses · Management of corporate governance requirements · Investor and media relations	⟷
07 (R Houghton)	Further restrictions on fungibility of capital following tighter regulatory measures	· Internal dividend policy · Simplification of entity structure (e.g. Scandinavia) · Regulatory dialogue (and clarity from PRA on UK targets)	↓
08 (D Price)	Failure to deliver on the IS transformation programme, including stability issues or business disruption during implementation	· Programme is made up of small, incremental investments · Commenced uplift of regional capability and recruitment of new IT Leaders · Implemented a transparent governance and assurance model · Specific focus and capability uplift on design, partner selection and contracting · Implementation costs and benefits reviewed and benchmarked by advisors · Better alignment and joint ownership of execution with the business across all regions	↓
09 (V Evans/ Regional CEOs)	Failure to create and sustain a culture and working environment that engages, attracts and retains diverse and talented staff with appropriate capabilities and experience to deliver the Group strategy	· Retention strategies targeted at key senior leaders and critical skill · Market mapping of key areas to develop talent and succession pipeline · Engaging our people in the Group strategic narrative · People expectations roll-out as part of Brand refresh	↑
10 (D Coughlan)	Failure of reinsurance programme to deliver planned benefits through, e.g. counterparty failure, operational error or failed recovery processes	· Board, Exco and BRC governance · Reinsurance recovery processes · Group-wide reinsurance placement management · Reinsurance Security controls and processes	⟷

Our 2014 Strategic Report, from page 2 to page 47, has been reviewed and approved by the Board of directors on 25 February 2015

STEPHEN HESTER
Group Chief Executive

Chairman's governance letter

We have further enhanced our governance structure globally to ensure consistency of oversight and reporting.

MARTIN SCICLUNA
Chairman

OVERVIEW

Throughout 2014, the Board focused on reviewing the Company's business objectives, to define the Group's priorities and identify a clear recovery programme. A Global programme was commissioned by the Group Audit Committee and Board Risk Committee Chairs to enhance the effectiveness of the Internal Control system and increase scrutiny. We have made tremendous headway on our journey to recovery, but there is still a way to go.

LEADERSHIP

The Company is led by a strong, experienced leadership team with wide-ranging expertise and capability. In February 2014, Stephen Hester joined the Board as Group Chief Executive bringing a wealth of experience and global financial services expertise. He has been instrumental in driving our action plan forward.

Richard Houghton has decided to leave the Group and will step down as a director on 7 May 2015 but will continue his role until a leaving date is agreed. I would like to recognise his contribution to the Group over the past three years.

As reported last year, Edward Lea and Malcolm Le May, who had served on the Board for 11 and 10 years respectively, retired as directors of the Company in May 2014. In addition, Adrian Brown resigned as a director of the Company in April 2014 after 25 years' service. I would like to take this opportunity to thank Edward, Malcolm and Adrian for their services to the Company.

Enrico Cucchiani was appointed as an Independent Non-Executive Director on 1 December 2014. Enrico has extensive experience and knowledge in the global financial services sector and the insurance sector including over 15 years at Allianz in a variety of international roles, and has significant Board experience with a number of publicly quoted companies. We welcome Enrico to the Board and look forward to benefiting from his experience.

Between 9 May and 1 December 2014, the Company had met the Davies Report requirement of 25% of women on the Board. Following the appointment of Enrico, the composition of the Board is 78% male and 22% female but with effect from 7 May 2015 the composition will again revert to 75% male and 25% female. We recognise the importance of diversity for Board effectiveness and remain committed to meeting the Davies Report requirement. All appointments are made on merit against the agreed selection criteria.

There have also been some changes to the Executive Committee during the year with the introduction of the new role of Chief Operating Officer, taken up by Paul Whittaker, formerly CEO of our Emerging Markets business and the departures of Mike Holliday-Williams, Chief Executive, Scandinavia; Neil Lightbown, Group Global Specialty Lines Director; and Paul Donaldson, Group Broker Relationship and Sales Director. Subsequently, Patrick Bergander was appointed as CEO Scandinavia; Darren Price as Group Chief Information Officer and Stephen Lewis as CEO UK & Western Europe. In addition, Derek Walsh took on the role of Global Broker Relationship Director.

David Weymouth will retire in May 2015 and is currently handing over to William McDonnell who has been appointed as Group Chief Risk Officer to replace him. In addition, Caroline Ramsay will retire from the Group in June 2015. The Board is confident in the quality of the Executive Committee and we look forward to working with them in the coming year.

EFFECTIVENESS

I have kept the Board's performance under review with the aim of improving effectiveness. An external performance evaluation was undertaken during 2013 and the Board has been working on actions arising from the recommendations. Progress against specific issues identified is set out in the Effectiveness section on pages 58 to 61 of this report. During 2014, an internal performance evaluation of the Board, its Committees and individual directors was conducted. Details of the key focus areas are set out in the Effectiveness section. The review concluded that we remain an engaged and effective Board who work well together, aligning risk management to strategy.

In January 2014, the PWC Report made a number of recommendations which have been incorporated into a Global programme, commissioned by the Group Audit Committee and Board Risk Committee Chairs to enhance the effectiveness of the Internal Control system. The Board is confident that the standards of corporate governance put in place globally and the solid governance framework in place enables efficient and effective decision-making with clear responsibilities.

Our Remuneration Policy was approved by shareholders at the 2014 AGM, following a review of our incentive programmes to simplify arrangements and improve transparency. The Policy is well aligned to our business strategy, incorporating stretching measures, reflecting our journey to recovery and the long-term success of the business. Responding to shareholder feedback, we will, in 2015, additionally include TNAV:NWP into our incentive arrangements. Full details are set out in the Directors' Remuneration Report on pages 80 to 106.

ACCOUNTABILITY

As mentioned earlier in the Annual Report, the Board initiated a Group-wide review of governance and control systems in 2014. The Board has been fully involved in this programme with Non-Executive Directors participating in Steering Group meetings.

Throughout the year, the Company has complied with the Principles and Provisions of the 2012 UK Corporate Governance Code (2012 Code), with the exception of the period from 1 January 2014 to 4 February 2014, when I performed the role of Executive Chairman on an interim basis until Stephen Hester joined the Group. Further information on compliance against the Main Principles of the 2012 Code is contained in this report, the Directors' Remuneration Report and the Group Audit Committee Report as applicable.

The Company has familiarised itself with the updated 2014 UK Corporate Governance Code. The Group Remuneration Committee has taken steps to include provisions to extend the Clawback Policy into its Remuneration Policy with effect from January 2015, to enable the Company to recover sums paid to Executives, in addition to withholding payments due to be made. Further details of the Long-Term Incentive Plan and Non-Executive Directors' remuneration are detailed in the Directors' Remuneration Report.

ENGAGEMENT

Throughout the year, the management team have had open discussions with our stakeholders: including employees, investors, the regulators and rating agencies.

The Board has been transparent in its reporting disclosure to keep the market informed of the strategic progress we have made in our recovery plan, with management reinforcing the messages through discussions with institutional shareholders and analysts. During the year, over 500 meetings have been held with institutional investors focusing on the outlook and strategic direction of the Group.

The Board is committed to improving the experience of the customer and providing an exceptional service.

BOARD COMMITTEES

As Chairman of the Board and Chair of the Group Nomination and Governance Committee, I am responsible for ensuring that the Board and its Committees operate effectively, have the right balance of skills and experience required, and that these Committees benefit from varied expertise. The composition of each of the Committees was reviewed in the light of Edward Lea and Malcolm Le May's departures. Johanna Waterous succeeded Edward Lea as Senior Independent Director. Kath Cates succeeded Edward as Chair of the Board Risk Committee and became a member of the Group Remuneration Committee. Jos Streppel succeeded Malcolm to become Chair of the Group Investment Committee and became a member of the Group Audit Committee. All have embraced their new roles and you will hear from Kath and Jos giving an overview of their Committee activity later in the report. Upon appointment, Enrico Cucchiani joined the Board Risk Committee and Group Remuneration Committee.

During the year, the Schedule of Matters Reserved for the Board and Committee Terms of Reference have been reviewed by the Board to ensure they remain appropriate and, where necessary, changes have been made. The Terms of Reference of the Board Risk Committee have been aligned to the three pillars of Solvency II. The role of the Group Nomination Committee has been expanded to include a review of Governance matters. In addition, a review of Committee membership has been undertaken to strengthen the performance of each Committee. For example, the Chair of the Group Audit Committee is now a member of the Board Risk Committee and the Board Risk Committee Chair is a member of the Group Audit Committee.

CONCLUSION

The Board is committed to deliver our key objectives, to demonstrate our resilience in these challenging times, and to re-emerge as a stronger Group. I would like to thank my fellow directors for the contribution and commitment they have made to this end.

MARTIN SCICLUNA
Chairman
25 February 2015

Board of Directors

Committees:

A	B	I
N	R	

Chairman

Name: MARTIN SCICLUNA
Role: Chairman
Appointment date: January 2013
Nationality: British
Skills and experience: Martin has considerable knowledge and understanding of the financial services sector and Board experience. Previous roles include Non-Executive Director and Chairman of the Audit Committee at Lloyds Banking Group plc, 34 years at Deloitte LLP, 26 years of which as Partner, Chairman of Deloitte LLP from 1995 to 2007 and a Director, Deloitte Touche Tohmatsu from 1999 to 2007.

External appointments: Chairman of Great Portland Estates plc, Non-Executive Director and Chairman of the Audit Committee of Ship Midco Limited, trading as Worldpay and a Board member of the Financial Services Trade and Investment Board.

Committees:

A	B	I
N	R	

Executive Director

Name: STEPHEN HESTER
Role: Group Chief Executive
Appointment date: February 2014
Nationality: British
Skills and experience: Stephen was previously Chief Executive Officer, The Royal Bank of Scotland Group plc, 2008-13, where he led the largest ever corporate restructuring and recovery programme. Prior to that he held positions as Chief Executive, British Land plc from 2004 to 2008, Chief Operating Officer, Abbey National plc and a number of senior roles at Credit Suisse First Boston in London and New York. Stephen has over 30 years' experience in financial services and FTSE100 companies with expertise in transforming the performance of businesses.

External appointments: Trustee of The Royal Botanic Gardens, Kew Foundation and Member of the Board of the Association of British Insurers.

Committees:

A	B	I
N	R	

Executive Director

Name: RICHARD HOUGHTON*
Role: Group Chief Financial Officer
Appointment date: June 2012
Nationality: British
Skills and experience: Richard's previous roles include Group CFO of Aspen Insurance Holdings Limited, COO and CFO at RBS Insurance, Finance Director of Ulster Bank, Finance Director of Direct Line and Accountant at Deloitte & Touche. He is a Fellow of the Institute of Chartered Accountants in England and Wales.

External appointments: No external appointments to listed companies.

* Richard will resign as a director with effect from 7 May 2015.

Committees:

A	B	I
N	R	

Independent Non-Executive Director

Name: JOHANNA WATEROUS CBE
Role: Senior Independent Non-Executive Director
Appointment date: May 2008
Nationality: Canadian
Skills and experience: Johanna's previous roles include Chairman of Tate Enterprises and over 20 years with McKinsey & Company, positions including Co-leader of the Global Marketing and Sales Practice and Leader of their UK Consumer Practice and the European Retail Practice, and Director of Shoppers Drug Mart Corporation (a company listed on the Toronto Stock Exchange). Johanna brings deep expertise on consumer behaviour, sales and marketing across multiple sectors.

External appointments: Non-Executive Director of WM Morrison Supermarkets plc, Non-Executive Director and Senior Independent Director of Rexam PLC, Director of RBG Kew Enterprises Limited and Chairman of Sandpiper CI.

Committees:

A	B	I
N	R	

Independent Non-Executive Director

Name: ALASTAIR BARBOUR
Role: Independent Non-Executive Director
Appointment date: October 2011
Nationality: British
Skills and experience: Alastair retired from KPMG in March 2011. In the last 20 years of his 36 year career with the firm, in the UK and overseas, he led their financial services team in Scotland with a primary focus on insurance and investment management. Alastair has extensive experience in advising on accounting and financial reporting, corporate governance and management issues in the financial sector and is a Fellow of the Institute of Chartered Accountants in England and Wales.

External appointments: Non-Executive Director of Phoenix Group Holdings, Standard Life European Private Equity Trust plc, Liontrust Asset Management plc, CATCo Reinsurance Opportunities Fund Limited, The Bank of N.T. Butterfield & Son Limited (a company listed in Bermuda).

Committees:

A	B	I
N	R	

Independent Non-Executive Director

Name: KATH CATES
Role: Independent Non-Executive Director
Appointment date: September 2013
Nationality: British
Skills and experience: Kath has over 20 years' experience in global financial services. She was previously Chief Operating Officer, Wholesale Banking for Standard Chartered Bank and spent 22 years at UBS. Kath has gained a deep knowledge of control, governance and risk management, working in emerging markets and across different sectors and cultures.

External appointments: Non-Executive Director of Brewin Dolphin Holdings plc.

Committees:

A	B	I
N	R	

Independent Non-Executive Director

Name: ENRICO CUCCHIANI
Role: Independent Non-Executive Director
Appointment date: December 2014
Nationality: Italian
Skills and experience: Enrico has over 35 years' global executive and non-executive experience across financial services including banking and insurance and a number of blue chip brands. He spent over 15 years at Allianz in a variety of international roles, including Head of Global P&C and Head of most of Europe, Latin America and Africa.

External appointments: Partner of Think Global Investments LLP.

Committees:

A	B	I
N	R	

Independent Non-Executive Director

Name: HUGH MITCHELL
Role: Independent Non-Executive Director
Appointment date: September 2012
Nationality: British
Skills and experience: Hugh is the Chief Human Resources and Corporate Officer of Royal Dutch Shell plc and a member of the Shell Executive Committee. Hugh has considerable experience in advising on HR and remuneration matters.

External appointments: Director of Shell International Limited, Shell Foundation and Shell Aircraft Limited. Advisory roles held at The Centre for Advanced Human Resources at Cornell University Advisory Board, IMD Business School Advisory Board, Fellow of the National Academy of Human Resources (USA) and Independent Director of Edinburgh Business School.

Committees:

A	B	I
N	R	

Independent Non-Executive Director

Name: JOSEPH STREPPEL
Role: Independent Non-Executive Director
Appointment date: October 2011
Nationality: Dutch
Skills and experience: Jos has a comprehensive understanding of the insurance market globally, extensive financial services expertise and a good knowledge of international and emerging markets. Previous roles include Chief Financial Officer of Aegon until 2009. Chairman of the Monitoring Committee of the Dutch Corporate Governance Code and Advisor to the Tilburg Centre of Finance.

External appointments: Chairman of KPN, Vice-Chairman of Van Lanschot, a Dutch private banking and asset management firm, Director of Arq Foundation, Chairman of Duisenberg School of Finance, Chairman of the Advisory Board of the Royal Dutch Society of Actuaries and Vice-Counsel (Raad) Enterprise Chamber of the High Court of Amsterdam.

COMMITTEE MEMBER KEY

A Group Audit Committee
B Board Risk Committee
I Group Investment Committee
N Group Nomination and Governance Committee
R Group Remuneration Committee

○ Chair of Committee
● Member of Committee

Executive Committee

The Executive Committee comprises the two Executive Directors whose biographies are on pages 50 to 51 and the following senior management:

Name: PATRICK BERGANDER
Role: CEO Scandinavia
Patrick Bergander joined the RSA Group's Executive Committee in June 2014 following his appointment as CEO of RSA Scandinavia. Previously CFO for Scandinavia, Patrick has been with the RSA Group since 2011.
Patrick has held senior finance roles at Electrolux and If Skadeförsäkring.

Name: DAVID COUGHLAN
Role: Group Underwriting Director
David joined RSA in March 2008 as Group Motor Portfolio Director and in February 2010 became Underwriting and Claims Director, Emerging Markets. Prior to RSA, David was at Zurich Financial Services where he was Head of Personal Lines Underwriting and Chief Pricing Actuary for the Zurich Group. David has 25 years of insurance experience in underwriting, pricing and actuarial-related matters and is a Fellow of the Institute of Actuaries.

Name: DARREN PRICE
Role: Group Chief Information Officer
Darren was appointed Group Chief Information Officer in June 2013 and joined the Executive Committee in May 2014. Having joined RSA in 2007 as CIO for the Group's Baltic operations, he went on to lead IT and Operations in RSA's Central and Eastern Europe region and, subsequently, its Emerging Markets business. Prior to RSA, Darren held roles at Compaq, Unilever, GE Commercial Finance and GE Capital Solutions.

Name: CAROLINE RAMSAY*
Role: Group Chief Auditor
Caroline joined the Group in 2007. Previous roles within the Group include UK Finance Director and Group Financial Planning & Analysis Director. Prior to joining the Group, Caroline held a number of finance roles at Aviva and spent 12 years at KPMG.

*Caroline will retire from the Group in June 2015.

Name: ROWAN SAUNDERS
Role: President & CEO, RSA Canada
Rowan is a member of the Canadian Board of Directors. Since joining the Group in 1987, Rowan has held progressive leadership positions in the areas of underwriting, marketing, sales and finance. He is a member of the Board of Directors of the Insurance Bureau of Canada (IBC) and was the IBC's past Chair. Rowan is currently a Non-Executive Director at Equitable Group Inc., a publicly traded company on the Toronto Stock Exchange.

Name: VANESSA EVANS
Role: Group Human Resources Director
Vanessa joined RSA in 2005 as Human Resources Business Partner Director in the UK, and has worked in a variety of roles across the Group. In 2006 she was promoted to Human Resources Director for the Emerging Markets Region. In 2008, Vanessa was promoted again to the role of UK Human Resources Director and in September 2011 she was appointed Group Human Resources Director. Prior to working at RSA, Vanessa was HR Director – Global Retail at Lego and before that Head of HR for Gap, the international clothing retailer.

Name: STEPHEN LEWIS
Role: CEO, UK & Western Europe
Steve became CEO for UK & Western Europe on 1 January 2015, joining from Zurich where he was CEO, UK General Insurance and Shared Services for five years. During his 25 year career at Zurich, Steve held a number of operational and financial roles including Group Finance, Head of Group Operations, Planning and Performance Management (2007–09) and Corporate, Chief Financial Officer and Head of Operations, GCiE (2006–07). Steve is a Fellow of the Chartered Association of Certified Accountants, having qualified in 1990.

Name: WILLIAM McDONNELL
Role: Group Chief Risk Officer
William was appointed Group Chief Risk Officer on 1 December 2014. Since joining RSA in 2006, William has also held the roles of Group Risk Director and Group Financial Controller. He has extensive risk management experience with a number of blue-chip financial institutions, including HSBC Investment Bank, where he was Insurance Capital Advisory Director, Aviva, the Financial Services Authority and seven years at Deloitte.

Name: DEREK WALSH
Role: Group General Counsel and Company Secretary
Derek joined the Group in July 2010. Derek has 20 years' experience in the insurance industry. From 2002 he served as Group General Counsel at Benfield Group Limited, where he was responsible for the global legal, company secretarial and compliance teams. Prior to that, Derek held positions in law firms Pinsent Curtis (now Pinsent Masons), McKenna & Co (now CMS Cameron McKenna) and Norton Rose. In June 2014, Derek took on the additional executive responsibility of Global Broker Relationship Director.

Name: DAVID WEYMOUTH*
Role: Group Chief Risk Officer
David was appointed Group Chief Risk Officer in November 2012. Since joining the Group in June 2007, David has also held the post of Group Operations and Risk Director. Before joining RSA, David spent two years consulting to blue-chip and government organisations. He was also CIO at Barclays and a member of the Group Executive Committee. He has extensive non-executive experience and is currently a Non-Executive Director at the Royal London Group and at the Financial Services Compensation Scheme.

* David is currently working with William McDonnell to ensure a smooth handover of the Group Chief Risk Officer post. He will retire from the Group on 31 May 2015.

Name: PAUL WHITTAKER
Role: Group Chief Operating Officer
Paul joined the Group in 2003 and was Chief Executive of Emerging Markets from 2006–14. He was appointed Group Chief Operating Officer in May 2014. Paul has over 20 years' senior management experience in the financial services sector, including three years at AXA and 10 years at GE Capital.

LEADERSHIP

DIRECTORS

The names of the directors together with their biographical and Committee membership details are set out on pages 50 and 51. In addition, Edward Lea and Malcolm Le May served as directors until their retirement on 8 May 2014 and Adrian Brown until his resignation on 16 April 2014. Richard Houghton will step down as a director on 7 May 2015 but will continue his role until a leaving date is agreed.

Stephen Hester was appointed as Group Chief Executive with effect from 5 February 2014. For the period from 1 January 2014 to 4 February 2014, Martin Scicluna performed the role of Executive Chairman on an interim basis until Stephen joined the Group, at which point the roles of Chairman and Group Chief Executive reverted to being separate and complementary with responsibilities clearly divided. Enrico Cucchiani was appointed as an Independent Non-Executive Director on 1 December 2014.

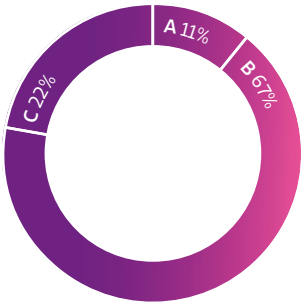
A summary of the role statements for the Chairman, Group Chief Executive and Senior Independent Director are provided later in this report on page 55. No one individual has unfettered powers of decision making.

The Company's Articles of Association give the directors power to appoint and replace directors as required. Non-Executive Directors are initially appointed for a three-year term with an expectation that they will continue for at least a further three years. The Group Nomination and Governance Committee make recommendations on director appointments or re-election to the Board. Directors stand for election or re-election annually at the Company's Annual General Meeting (AGM) for approval by shareholders.

Details of the directors' service contracts and terms of appointment, together with their interests in the Company's shares, are shown in the Directors' Remuneration Report on pages 80 to 106 and are incorporated into this report by reference.

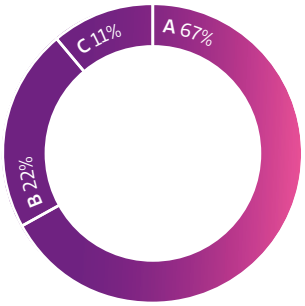
COMPOSITION OF BOARD AS AT 31 DECEMBER 2014

A Chairman
B Independent Non-Executive Directors
C Executive Directors



BOARD TENURE AS AT 31 DECEMBER 2014

A 0 to 3 years
B 3 to 6 years
C 6 to 9 years



DIVISION OF RESPONSIBILITIES – SUMMARY OF ROLE STATEMENTS

Role of Chairman	Role of Group Chief Executive
Responsible for: · Leadership of the Board, promoting a culture of openness and debate · Effectiveness of the Board · Ensuring provision of timely, accurate and clear information · Effectiveness and structure of the Board's Committees · Leading the annual evaluation of the Board and its Committees' performance · Performance of Board Committees and individual directors · Agreeing training and development plans for each director · Ensuring a tailored induction for new directors · Succession planning and Board composition based on the recommendations by the Group Nomination and Governance Committee · Leadership of the Board in agreeing the Group's strategic operating plans and budgets · Ensuring relevant objectives are established for the Group Chief Executive and his management team · Reviewing with the Group Chief Executive the overall performance of the Company and its senior management · Undertaking the role of ambassador for the Company, participating in the engagement and effective communication with the Company's stakeholders · Chairing effective General Meetings.	Responsible for: · Developing targets and goals for the senior management of the Company · Developing, recommending and presenting to the Board, taking into account any threats or opportunities: – strategic plans – risk appetite for the business – risk exposure · Preparing detailed Business Plans for the Company and its major subsidiaries, monitoring the performance of the Group, ensuring that objectives are achieved and Business Plans are implemented within budget · Overseeing, directing and controlling financial management, control standards and reporting processes of the Company and its main subsidiaries · Reviewing the organisational framework to ensure that policies relating to management selection, performance review, development and change are appropriate · Ensuring that management succession plans are in place · Identifying and executing acquisitions and disposals up to prescribed limits · Compliance with legal and regulatory requirements of the relevant regulatory bodies · Developing the Company's communications strategy to meet the needs of, and engage with, all internal and external stakeholders · Representing the Company in the industry and business community · Liaising with the Chairman and Board on matters which are material to the performance of the Company.

Role of Senior Independent Director	Role of Non-Executive Directors
Responsible for: · Providing support to the Chairman in the delivery of his responsibilities when required · Assisting in matters relating to Board evaluation · Chairing the Group Nomination and Governance Committee when considering matters relating to the Chairman of the Board · Ensuring that the views of each of the Non-Executive Directors are given due consideration and facilitating communication between the Non-Executive Directors and the Chairman · Holding meetings with the Non-Executive Directors without the Chairman being present to review the Chairman's performance.	Responsible for: · Challenging and agreeing the Group's strategy with senior management · Assessing the performance against Group Strategy · Participating in the activities of the Board Committees. Committee selection is regularly reviewed by the Group Nomination and Governance Committee based on skills and experience · Meeting with the Chairman without Executive Directors being present · Meeting with the Senior Independent Director without the Chairman being present to review the Chairman's performance and other matters.

The Group Chief Executive has delegated authority, through the Group's Delegated Authority Framework, which defines the limits of expenditure which are specifically delegated to him. From time to time additional authorities are delegated from the Board to cover specific matters as required.

Further information on the individuals fulfilling these roles can be found on pages 50 to 51.

ROLE OF THE BOARD

The primary responsibility of the Board is to provide effective leadership to ensure that it promotes the success of the Company for the benefit of its members as a whole. The Board provides entrepreneurial leadership within a framework of prudent and effective controls.

The Board is accountable to stakeholders for the creation and delivery of strong sustainable performance and the creation of long-term shareholder value. The Board meets frequently and is responsible for organising and directing the affairs of the Group in a manner that will promote the success of the Company and is consistent with good corporate governance practice, ensuring that in carrying out its duties the Company and the Group meet legal and regulatory requirements.

The business of the Company is managed by the Board of Directors, who may exercise all the powers of the Company subject to the Articles of Association, relevant law and any directions as may be given by the Company at general meetings by ordinary shareholder resolution. The directors may delegate any of their powers or discretions to Committees.

The Board sets annual objectives for the business in line with the current Group strategy and monitors achievement of the Company's objectives through regular reports which include updates from the Group Chief Executive and the Group Chief Financial Officer on all material business matters.

The Board reviews on an annual basis a Schedule of Matters Reserved for the Board which can only be amended by the Board itself, which is reviewed annually. Matters reserved to the Board include:

- Approval of the Group's long-term objectives and commercial strategy
- Approval of changes to the Group's senior management structure
- Approval of the Group's overall risk appetite
- Annual review of the effectiveness of the Group's systems of risk management and internal control
- Approval of the annual operating and capital budgets
- Changes to the Group's capital structure
- Approval of the Group's financial results and any significant changes to accounting practices or policies
- Corporate governance arrangements
- Approval of any significant expenditure, material transactions and contracts.

There is a standing agenda of items for consideration by the Board that is continually refreshed.

The Board initiated a Group-wide review of governance and internal control systems during 2014 following the irregularities uncovered in Ireland. The programme is driving enhancements to the Internal Control system globally to ensure consistency of oversight and reporting is achieved with sufficient objectivity and independence. The Board has been fully involved in this programme. Non-Executive Directors participate in Steering Group Meetings and the Board receives regular updates.

In addition to the Schedule of Matters Reserved for the Board, the Board has delegated authority to core Committees focusing on key specialised areas. Each of these Board Committees have written Terms of Reference defining their role and the authority delegated to them. The Schedule of Matters Reserved for the Board and the Terms of Reference for each Board Committee were reviewed in the year and changes made where appropriate. The Terms of Reference are available on the Company's website www.rsagroup.com/termsofreference. Upon the departure of Edward Lea and Malcolm Le May, a full review of Committee composition was undertaken to broaden the Committees' experience and knowledge. Further details on the principal duties of each Board Committee can be found under the Board Committees section commencing on page 69, in the Group Audit Committee Report on pages 75 to 79 and the Directors' Remuneration Report on pages 80 to 106.

The Chairman is responsible for leading the annual review of the effectiveness of the Board and its Committees. The Board, through the Group Remuneration Committee, determines the Remuneration Policy for the Executive Directors, the Chairman, Group General Counsel and Company Secretary, as well as for the members of the Executive Committee.

BOARD AND BOARD COMMITTEE ATTENDANCE

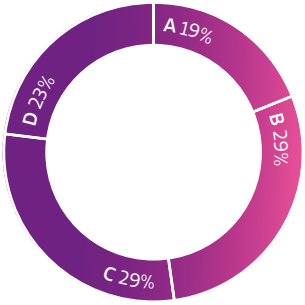
The Board held nine scheduled meetings during the year and four additional meetings. In addition, Non-Executive Directors met privately without Executive Directors or senior management being present.

	Scheduled Board Meetings Attended	Additional Board Meetings Attended
Martin Scicluna	9/9	4/4
Alastair Barbour	9/9	4/4
Adrian Brown[1]	3/3	4/4
Kath Cates	9/9	4/4
Enrico Cucchiani[4]	1/1	0/0
Stephen Hester[2]	8/8	3/3
Richard Houghton	9/9	4/4
Malcolm Le May[3]	4/4	3/4
Edward Lea[3]	4/4	4/4
Hugh Mitchell	9/9	4/4
Jos Streppel	7/9	4/4
Johanna Waterous	9/9	3/4

Notes:
1. Adrian Brown ceased to be a director with effect from 16 April 2014.
2. Stephen Hester was appointed as a director with effect from 5 February 2014.
3. Edward Lea and Malcolm Le May ceased to be directors with effect from 8 May 2014.
4. Enrico Cucchiani was appointed as a director with effect from 1 December 2014.
5. Details of Board Committee attendance can be found in the individual Board Committee reports on pages 69 to 106.

TIME SPENT ON BOARD AND BOARD COMMITTEE ACTIVITIES

A Strategy
B Financial
C Risk Management and Controls
D Governance



FOCUS OF THE BOARD AND COMMITTEES DURING 2014

Strategy	· Strategic Business Review: strategic objectives, planning and implementation · Approval of business disposals · Key functional updates and developments · Review of regional strategies	· IT Development and strategy · Brand, marketing and e-business
Financial	· Monthly review of performance for each business · Review of profitability against plan · Financial reporting and controls · Reserving · Capital strengthening: rights issue, share consolidation, bond issue · Review of the capital position against internal and external capital measures	· Solvency II: capital · Monitoring share price performance · Approval of the 2015-17 Operational Plan · Audit engagement and effectiveness · Significant transactions and contracts · Investment performance · External audit updates
Risk Management and Controls	· Approval of the Group Risk Appetite · Monitoring material claims and reinsurance matters · Capital risk · Solvency II: risks · Conduct risk: customer, conduct, culture · Regulatory risk · Pension risk · FX risk	· Cultural Health Index · Review of strategic and operational plan risk profiles · Review of financial and regulatory reporting controls · Internal controls in the regional businesses · Internal Audit updates
Governance	· Review of governance and control systems · Annual Directors and Officers Policy renewal update · Investor reaction, analyst consensus and market sentiment · Share consolidation · Shareholder material: financial results, circulars, Annual Report and Accounts, AGM · Review of Board and Committee evaluation · Succession planning	· Review of Board and Committee membership, Schedule of Matters Reserved for the Board and Board Committee Terms of Reference · Delegated Authority Framework and Executive Licence limits · Regulatory compliance: conduct, bribery and corruption, know your customer · Whistleblowing policy and training · Training and development · Regular Committee updates to the Board

2015 AND BEYOND

The Board's key business objectives are to:

- improve the Group's focus: become stronger and better by redefining the Group's strategy
- strengthen the Group's capital and balance sheet
- optimise the business portfolio
- provide an exceptional customer experience.

In doing so, the Company aims to improve business performance to deliver a sustainable dividend into the future, delivering long-term value to shareholders.

During 2014, the Board has made good progress in delivering against these objectives with a number of disposals through which the Group has strengthened its capital position, and as we move into 2015 the Board will continue to focus on these priorities. Details of the progress made are set out in the Strategic Report on pages 2 to 47.

EFFECTIVENESS

EFFECTIVENESS OF THE BOARD

The Board considers that the information provided to the Board and its Committees is supplied in a timely manner and is of an appropriate quality to enable it to discharge its duties. Where a director was not available to attend a meeting, their views, where possible, were canvassed by the Chairman prior to the relevant meeting and the Board informed of their opinions and observations. Formal minutes recording the decisions of all Board and Committee meetings are prepared and circulated to each director. If a director objects to a particular decision this is recorded in the minutes of the relevant meeting. When considering matters such as the approval of financial statements and large operational contracts, the Board may delegate authority to a Committee to finalise and approve as required.

In accordance with the 2012 Code recommendations, an internal performance evaluation process is undertaken annually to ensure the Board remains effective. At least once every three years, the evaluation process is carried out by an external party. This process is run by the Chairman, supported by the Senior Independent Director. The results of the performance evaluation are discussed by the Group Nomination and Governance Committee and the Board. Details of progress against the 2013 external performance evaluation and the key focus of the 2014 internal performance evaluation can be found on pages 60 to 61 later in this report.

COMPOSITION OF THE BOARD

In accordance with the 2012 Code, the Board believes that it has the appropriate balance of skills, experience, independence and knowledge to enable it and its Committees to discharge their duties and responsibilities effectively. The Board is satisfied that it is of a size appropriate to the needs of the business and that no individual or small group of directors can dominate the Board's decision making. One of the key responsibilities of the Group Nomination and Governance Committee is to keep under review Board membership and succession planning to ensure the balance remains appropriate. This review was undertaken during the course of the year.

When appointing new directors, regard is given to the size of the Board, the balance of Executive and Non-Executive Directors and the benefits of diversity, including gender. Between 9 May and 1 December 2014, the Company had met the Davies Report requirement of 25% of women on the Board. Following the appointment of Enrico Cucchiani in December 2014, the composition of the Board is 78% male and 22% female directors but with effect from 7 May 2015 the composition will again revert to 75% male and 25% female directors. The Board recognises the importance of diversity for Board effectiveness.

The Board considers the skills, experience, independence and knowledge already represented when making decisions on new appointments and ensures that succession planning processes are in place. The Group Nomination and Governance Committee recommend directors for appointment or re-election to the Board. Directors are proposed for annual election or re-election by shareholders at the Company's AGM, if they wish to stand.

The Board reviews the membership of its Committees on an annual basis to ensure they remain appropriate. Further details on changes to Board Committee membership are contained in the relevant Committee report. Only members of the Board Committees are entitled to attend Committee meetings; however, the Committee or its chairman may invite any directors, senior management or any external professional advisers to attend all or part of any meetings as and when required. The key functions of Risk, Actuarial, Compliance and Internal Audit, all directly report to a Board Committee providing expert advice on their remits to the relevant Committee and senior management.

Details of current directors together with their biographical and Committee membership details are set out on pages 50 and 51.

Reports on the activities of the Board Committees throughout 2014 can be found on pages 69 to 106 and are incorporated into this report by reference.

COMMITMENT

The letters of appointment for the Chairman and each of the Non-Executive Directors set out the anticipated time commitment, being an average of two days per week for the Chairman and 28-32 days per year for Non-Executive Directors. Non-Executive Directors are required to allocate sufficient time to meet the expectations of the role, and to attend Board and Committee meetings and the AGM. In addition, directors may be required from time to time to attend additional meetings, training and briefings.

Throughout 2014, Directors have demonstrated flexibility and commitment in attending additional, short notice Board and Committee meetings, and have made themselves available to meet with the regulators as required. During the period from 1 January to 4 February 2014, Martin Scicluna performed the role of Executive Chairman until Stephen Hester joined as Group Chief Executive. Upon his appointment as Executive Chairman in December 2013, the Board confirmed that due to the interim nature of the appointment, they were satisfied that Martin Scicluna's external commitments would not restrict him from effectively performing this role.

Martin Scicluna is also Chairman of Great Portland Estates plc, a director of Ship Midco Limited, trading as Worldpay, and a member of the Financial Services Trade and Investment Board. The Board is satisfied that these commitments are not a constraint on the Chairman's time or his ability to carry out his duties.

Stephen Hester and Richard Houghton, Executive Directors of the Company, do not hold outside directorships of FTSE100 (or any other listed) companies but would be allowed to have one such appointment, subject to the approval of the Group Nomination and Governance Committee.

Service agreements and letters of appointment for the Chairman, Executive and Non-Executive Directors, are available for inspection at the Company's registered office and will be available for inspection at the AGM.

INDUCTION, TRAINING AND DEVELOPMENT OF DIRECTORS

Upon appointment to the Board and any Committee, directors undertake an induction programme, receiving a broad range of information about the Company which is tailored to their existing knowledge and experience. This includes information on the operational performance and business of the Group and details of Board procedures, Corporate Governance and directors' responsibilities, along with a series of meetings with senior management covering all aspects of the business: regulatory compliance, claims, capital, reserving, internal audit, IT and e-business and HR. In addition, in line with recommendations from the 2013 external Board Effectiveness Review, the induction programme now includes attendance at each of the Board Committees at least once during their induction. The Group General Counsel and Company Secretary is responsible for assisting the Chairman in arranging the induction programme, training schedules and professional development for the directors and for bringing all governance matters to the attention of the Board.

Each director has an individual training plan for the development and enhancement of their business knowledge which is subject to discussion with the Chairman. The directors have access to the services and advice of the Group General Counsel and Company Secretary, and in addition may take independent professional advice at the expense of the Company in the furtherance of their duties.

Additionally, the Board receives briefings on matters which are material to the Group relating to the financial and operational performance of the business, briefings on legislative and regulatory changes and corporate governance matters affecting the Group.

DIRECTORS' TRAINING

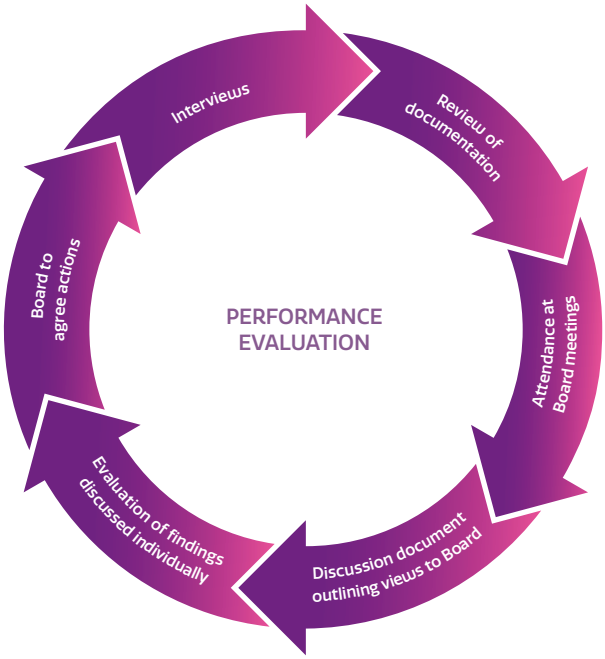
Directors have attended training sessions and seminars during the course of the year to enhance their knowledge and keep their experience relevant. Training topics covered during 2014 include:

- Developments for audit committees, audit reporting, auditor rotation and non-audit services
- Developments in Strategic Reports and financial reporting: fair, balanced and understandable; going concern
- Corporate governance
- Developments in Accounting principles: IFRS, UK GAAP
- Financial Control Framework
- Evolving risk and capital disclosures
- Cyber security
- Solvency II
- Meetings with various function heads and regional business areas.

"RSA is keen to make certain that, as directors we have available to us relevant resources to support and supplement our understanding of the industry and relevant matters so ensuring we can perform effectively in our roles. Each director has a training plan which is reviewed by the Chairman. This year I have participated in a number of targeted training sessions which have included developments in the financial reporting and governance arenas and on Solvency II. Our Solvency II training programme, which is ongoing, is provided to the entire Board by our in-house Solvency II team, explaining the requirements for Solvency II and how these are being applied to the Company."

Alastair Barbour
Non-Executive Director and Chair of the Group Audit Committee

PERFORMANCE EVALUATION



During the year, an internal evaluation of the effectiveness of the Board, its Committees and individual directors was led by the Chairman with the support of the Senior Independent Director. The review reflected on the results from the governance and controls review and the key strategic objectives to be achieved in the short term.

The process considered the Board and Board Committee composition, performance, oversight, knowledge and understanding. It also considered improvements to become more effective, and identified the key areas of focus for 2015:

- Increased scrutiny of the near-term performance, including achievement of key milestones in line with the three-year strategic turnaround plan
- Refine the longer-term strategic vision of the Group
- Review of the Group's operational and commercial capabilities
- Board and Committee agendas to be reviewed to have greater focus on major issues in addition to 'Business As Usual'
- Deeper review of succession planning, engagement and culture
- Review the pace and evidence of cultural change, in line with the new control and risk frameworks
- The Board to spend more time in the business, with increased interaction with senior management, customers, brokers, key shareholders and regulators, to strengthen the board's direct insights into the business and its capabilities
- Additional informal meetings of the Chairman, Non-Executive and Executive Directors to discuss issues beyond the normal Board meeting agendas.

The review took the form of a questionnaire and included interviews with all Board members. It concluded that the Board remains an engaged and effective Board, the members of which work well together, aligning risk management to strategy. The Board sets stretching performance targets and monitors performance against them. In addition, the Board and its Committees place the right focus on topical matters and the priorities for 2015 and beyond have been reinforced.

The Senior Independent Director met independently with each of the Non-Executive Directors and the Group General Counsel and Company Secretary to evaluate the performance of the Chairman. The review concluded that the Board's awareness of major issues has been enhanced through improved reporting, selective deep dives and formal training. In addition, the review concluded that the Chairman had led the Board in an effective way throughout the year. The Board especially appreciated the effective role Martin Scicluna undertook as Executive Chairman from 13 December 2013 to 4 February 2014.

As reported in the 2013 Annual Report and Accounts, an external performance evaluation was carried out during 2013 by Boardroom Review Limited (2013 Evaluation). Throughout the year, the Board has worked through the observations and recommendations highlighted in the 2013 Evaluation. Specifically:

Recommendations from the 2013 Evaluation	Actions taken as a result of the 2013 Evaluation recommendations
A future Non-Executive Director added to the Board to have an in-depth and specific experience of the general insurance sector and an understanding of the fundamental changes taking place across platforms, geographies, clients and customers.	Enrico Cucchiani was appointed as a director in December 2014. Enrico has extensive financial services and insurance sector experience including over 15 years at Allianz in a variety of international roles. Biographical details for Enrico are set out on page 51.
Allocate time to discuss the risks emerging from culture and strategy, and the activities and behaviour of individual leaders.	As part of the Business Review and the review of strategy, a full review of the risks facing the Group was undertaken. In addition HR and Group Risk have developed a Cultural Health Index which includes an index of positive and negative indicators to help senior leaders spot the early warning signs of cultural risk. The Index is reviewed quarterly by senior HR, Audit and Risk leaders and the results are monitored at the Board Risk Committee.
Site visits to build awareness of the Group.	Stephen Hester has undertaken a programme of visits to all regional offices throughout 2014. In addition, Non-Executive Directors have attended regional Board and Audit Committee meetings and spent time with regional senior management.
The ability to work together to identify priorities and integrate into the Group's evolving executive culture should be a particular focus by the Board in the future.	The Business Review has enabled the Board to consider the Group's priorities and identify a clear recovery programme, giving visibility of the issues the Company faces. In addition, a review of the global governance structure and consistency of reporting globally has provided the Board with enhanced oversight.
Ensure Non-Executive Directors are aware of the work of the Board Committees, with overlap of membership and participation as members on several Committees. It was encouraged that new Non-Executive Directors, as part of their induction should attend each Board Committee at least once during their induction.	A full review of Committee composition by the Group Nomination and Governance Committee was carried out to achieve cross-Committee membership. The Chair of the Group Audit Committee is a member of the Board Risk Committee, the Board Risk Committee Chair is a member of the Group Audit Committee and the Chair of the Group Remuneration Committee is a member of the Board Risk Committee. In addition, the Non-Executive Director induction programme now includes attendance at each of the Board Committees to familiarise themselves of the matters discussed.
Alignment of performance and reward. Directors need a comprehensive understanding and further scrutiny of incentive systems throughout the Group.	The Group Remuneration Committee has reviewed the Remuneration Policy. The Policy is well aligned to the business strategy incorporating stretching measures. TNAV:NWP is being included as an additional measure in 2015. The Business Review Scorecard in the PSP will be strengthened to include controllable expense targets. The Group Remuneration Committee has taken steps to include provisions to extend the Clawback Policy with effect from January 2015, to enable the Company to recover sums paid to Executives, in addition to withholding payments due to be made.
Increase attention on the role of executive succession planning throughout the Group. Regular discussions about people becoming a greater part of the Board's agendas.	Members of the Board attend the Executive, senior and FastTrack Executive Development Programmes to support talent development and build relationships with key succession players. The Board has discussed and shared thoughts on people, culture, cultural risk and employee engagement during the year.

ENGAGEMENT

EMPLOYEES

The high performance and strong expertise of the Group's employees are key to the successful delivery of the business strategy.

In 2014, employees had the opportunity to share their views on the Company through the new global employee engagement survey, YOURSAY. Through YOURSAY, over 100,000 comments, ideas and suggestions were received from employees and the results were shared openly. Employees have been actively encouraged to take actions for improvement based on the survey results.

During the year, the Company implemented a number of actions to further strengthen its culture, including the launch of a new whistleblowing platform, Ethicspoints, and the launch of the RSA Cultural Health Index.

Rigorous performance and talent management processes are in place across the Group to ensure an ongoing focus on high performance and the development and acquisition of talent. The Group runs a number of talent programmes for senior and emerging talent and has continued to focus on retaining talent, among our high performing and high potential populations. The Company also continues to be recognised in the insurance market for its deep technical expertise and the Technical Academy.

The Group is committed to diversity and the promotion of equal opportunities. Following the launch in 2013 of a new diversity and inclusion programme, the Group has continued to invest in strengthening our pipeline of female employees in senior leadership positions. We are committed, wherever possible, to employing and developing people who are disabled, or become disabled during their career with the Company.

Further details of the Company's employment policy is set out in the Strategic Report on pages 2 to 47 and is incorporated into this report by reference.

CUSTOMER

The Company's founding purpose was to help to protect people through the protective and restorative power of insurance. This purpose still drives our business today, 304 years later. The regional businesses are empowered to make the best decisions for their customers locally, with support from the Group Corporate Centre. In many countries we operate in, the primary customer measure is the Net Promoter Score (NPS) which produces a customer's satisfaction score based on a scale of 1 – 10. NPS is universally recognised and used across industries. NPS can be calculated at a technical level, prompted when a customer has interacted with the Company, and as an overall level of satisfaction at any given time. It allows us to make changes to the customer experience, however small, with the aim of making any interaction with the Company as easy as possible.

In addition to NPS, we track a range of metrics to ensure that the right decisions are made for our customers. These differ by product and region to ensure we are focusing on what is important for the specific customer set. These include retention, complaint levels, consideration of non-customers to take out a product, service levels, trust and internal product advocacy.

The focus on improving these metrics is driven by a keen intent to base decisions on real customer insight. Over the next few years we will continue to improve the Company's customer satisfaction through the application of learning across the business from the areas of success we have identified through reporting. There is also a focus on reducing and preventing insurable risks before they even happen as well as providing great, personal customer support should the worst happen.

REGULATORS

The Board is responsible to the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) for complying with the Group's UK insurance regulatory obligations. The Board attaches great importance to its regulatory responsibilities and is committed to dealing with the regulators in an open, cooperative and transparent manner. The Board paid close attention to the expectations of the PRA and FCA following their establishment on 1 April 2013 and also monitored developing EU and international regulation, in particular Solvency II. During the year the PRA and FCA conducted private meetings with several members of the Board and senior management. Regular management information is provided to assist the PRA and FCA with the supervision of the Group. In addition, the Group includes a number of regulated subsidiary entities which seek to foster positive regulatory relationships in support of the businesses. Accordingly, maintaining effective relationships with the Group's regulators across the world is integral to the success of the Group's strategy and its long-term value.

RATING AGENCIES

The Group is rated on an interactive basis by Standard & Poors and Moody's. The insurance financial strength ratings are currently A (stable outlook) and A2 (negative outlook) respectively. These ratings were affirmed following the 2013 year-end results, the rights issue and after discussions with both rating agencies. During 2014, there has been regular contact with both agencies including calls to discuss the half-year results. In addition, both agencies spent one day with senior management discussing Group strategy, financial plans, capital and risk management. The rating agencies both rated the bond issue in October 2014.

SHAREHOLDERS

The Group is committed to proactive and constructive interaction with shareholders and other market participants. During 2014, the Company held over 500 meetings with institutional investors, and met with 18 of the top 20 shareholders on at least one occasion. The key themes

of these meetings centred on the outlook and strategic direction of the Group. The Group's share register includes institutional investors predominantly from the UK, Europe and North America with a range of investment styles. During 2014, there has been a sizeable increase in the proportion of shares held by non-UK shareholders, with the top 20 shareholders at 31 December 2014 including investors from the US, Scandinavia, Canada and Asia.

During 2014, the Group significantly increased and enhanced the disclosure of financial information to shareholders and other market participants. Examples of this include more detailed breakdowns of our underwriting performance, disclosure of our reserve margin, changing the methodology used to calculate our combined ratio to bring it more in line with peers, enhanced pension disclosures and details around the Group's capital diversification benefit. The Group is committed to the ongoing review of financial disclosure to ensure that it is relevant and appropriate.

SUBSTANTIAL SHARE INTERESTS[1]

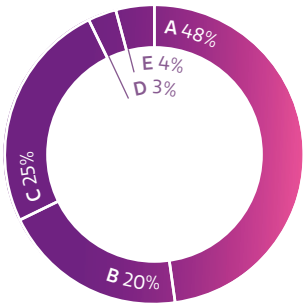
The following table shows the holdings of major shareholders as disclosed to the Company in accordance with the Disclosure and Transparency Rules as at 31 December 2014 and at the date of this report. There are no shareholder agreements in place with the Company that may restrict transfer of securities or voting rights.

	As at 31 December 2014			As at 25 February 2015		
	No. of ordinary shares	% total voting rights	Nature of Holding	No. of ordinary shares	% total voting rights	Nature of Holding
Ameriprise Financial, Inc, and its group[2]	188,902,771	5.13%	Direct & Indirect & CFD	188,902,771	5.13%	Direct & Indirect & CFD
Artemis Investment Management LLP[2]	182,450,614	4.96%	Direct & Indirect	182,450,614	4.96%	Direct & Indirect
Cevian Capital II G. P. Limited	133,068,287	13.12%	Indirect	133,068,287	13.12%	Indirect
Franklin Mutual Advisers, LLC[2]	184,256,341	5.01%	Direct & Indirect	184,256,341	5.01%	Direct & Indirect
Newton Investment Management Ltd[2]	168,455,475	4.88%	Indirect	168,455,475	4.88%	Indirect
Schroders plc[2]	170,851,201	4.95%	Direct & Indirect through subsidiaries	170,851,201	4.95%	Direct & Indirect through subsidiaries
Standard Life Investments Ltd[2]	152,266,879	4.42%	Direct & Indirect	152,266,879	4.42%	Direct & Indirect
The Capital Group Companies Inc[2]	260,447,169	5.14%	Indirect	260,447,169	5.14%	Indirect

Notes:
1. Interests subject to DTR 5.1.5 which have been notified as falling below 5% are not included in the above table.
2. Where the holding has not been re-notified to the Company since the share consolidation became effective on 12 May 2014, the number of ordinary shares shown is as notified pre-consolidation.

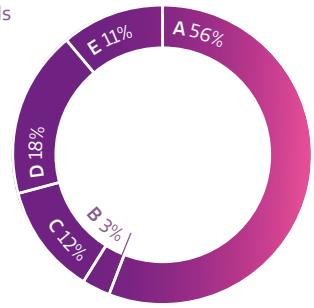
DISTRIBUTION OF SHARES BY GEOGRAPHY

A UK
B Europe
C US and Canada
D Rest of the World
E Unanalysed



ANALYSIS OF REGISTERED HOLDERS

A Unit trust/Mutual funds
B Private/Retail
C Pension funds
D Other
E Insurance



REGISTERED SHAREHOLDINGS BY SIZE AS AT 31 DECEMBER 2014

Balance Ranges	Number of Holdings	Percentage of Holdings	Number of Shares	Percentage of Issued Capital
1–24,999	37,100	98.15%	35,029,394	3.45%
25,000–99,999	275	0.73%	13,802,057	1.36%
100,000–499,999	225	0.60%	51,082,462	5.03%
500,000–999,999	67	0.18%	48,587,488	4.78%
1,000,000–1,999,999	57	0.15%	79,418,937	7.82%
2,000,000 and above	77	0.20%	787,566,535	77.56%
Totals	37,801	100.00%	1,015,486,873	100.00%

Share Capital

The Company is listed on the London Stock Exchange under the ticker symbol RSA. The Company has two classes of shares: Ordinary Shares of £1.00 each and Preference Shares of £1.00 each.

In March 2014, the Company announced a rights issue of three for eight 27.5p Ordinary Shares at a price of 56p per Ordinary Share. On 9 April 2014, 1,380,976,863 Ordinary Shares were issued ranking pari passu with those previously in issue. Following the rights issue and the passing of a shareholder resolution at the Company's 2014 AGM, in May 2014 the Company took steps to subdivide its 27.5p Ordinary Share into one Ordinary Share of 20p carrying the same rights and restrictions as a 27.5p Ordinary Share, and one 7.5p Deferred Share (Deferred Share) with restricted rights. Immediately thereafter the 20p Ordinary Shares were consolidated on the basis of five 20p Ordinary Shares into one new Ordinary Share of £1.00 carrying the same rights as a 20p Ordinary Share. In June 2014, the Deferred Shares were purchased for an aggregate payment of one penny and subsequently cancelled in accordance with the rights attaching to this share class. The capital equivalent of the cancelled 7.5p Deferred Shares is being held in a non-distributable capital redemption reserve. Further information on the Company's share capital, together with details of the movements in the Company's issued share capital during the year and rights attaching to the shares can be found in note 20 on page 177 of the Notes to the Financial Statements which is incorporated into this report by reference.

As at 31 December 2014, the Ordinary Shares and Preference Shares represented 89% and 11% respectively of the total issued share capital. Directors are limited as to the number of shares they can allot (save in respect of share schemes). Renewal of the directors' authorities to allot shares will be sought at the 2015 AGM. In addition, directors are restricted by the limits set out by the Investment Association. During 2014, the directors exercised their authorities to allot shares only in respect of the employee share schemes.

The average total daily trading volume during 2014 was approximately 4.1m Ordinary Shares. The closing market price of an Ordinary Share on 2 January 2014 was 92p (equivalent post-consolidation price of 409.23p) and the closing market price on 31 December 2014 was 435p. The highest daily closing price of an Ordinary Share was 497p on 19 June 2014 and the lowest daily closing price was 87p on 3 January 2014 (equivalent post-consolidation price of 409.01p) (source: datastream).

There are no specific restrictions on the size of a shareholding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and legislation. The directors are not aware of any agreements between the Company's shareholders that may result in restrictions on the transfer of securities or on voting rights. The Company may purchase any of its own shares (including any redeemable shares). An authority from ordinary shareholders for the Company to purchase up to 73,644,360 (on a post-consolidation basis) of its own Ordinary Shares (representing 10% of its issued share capital as at 3 March 2014) was passed at the 2014 AGM. This authority will expire at the conclusion of the 2015 AGM. During the year, the only shares repurchased by the Company were 5,068,926,055 Deferred Shares, which represented 100% of the non-voting share class, for a total aggregate value of one penny following the share consolidation. These shares were subsequently cancelled.

During the year, the Company operated three employee benefit trusts to hold Ordinary Shares in the Company which are used to satisfy grants under the Group's share incentive schemes and Capita Trustees Limited was the Trustee of each trust. Two of these trusts were closed on 31 December 2014 and the assets of these trusts transferred to the remaining trust. In addition, a Share Incentive Plan (Sharebuild) Trust is operated of which Capita IRG Trustees is the Trustee. The Trustees may vote in respect of any shares held in the trusts but have no obligation to do so, and Trustees may have regard to the financial interests of the beneficiaries in exercising their voting rights over the Company's shares. Standard dividend waiver agreements are in place for the employee share trusts to receive dividends of 0.01 pence per share excluding the Voluntary Invested Deferred Shares.

The Company operates a sponsored American Depositary Receipts (ADR) programme which is managed by JP Morgan Chase NA. The programme allows shareholders to invest in the Company through US dollar denominated funds. As part of the subdivision and share consolidation programme, the Company changed its American Depositary Share (ADS) ratio for its ADR programme from one ADS representing five Ordinary Shares of 27.5p each to one ADS representing one Ordinary Share of £1.00 each.

Dividends

The Directors recommend a final dividend of 2p per Ordinary Share to be paid on 15 May 2015 to holders of Ordinary Shares on the register at the close of business on 6 March 2015, subject to ordinary shareholder approval. No interim dividend was paid during 2014, so the total dividend for the year is 2p (2013: 10.2p restated post-consolidation). The Company will not be offering a Scrip Dividend alternative in respect of the final dividend recommended.

The Company's Preference Shares receive a dividend at the rate of 7.375% per annum paid in two instalments on, or as near as practicably possible to, 1 April and 1 October each year.

AGM

The AGM will be held at 200 Aldersgate, St Paul's, London EC1A 4HD on Friday, 8 May 2015 at 11.00am. A letter from the Chairman and the notice convening the AGM (Notice) is made available to all ordinary shareholders at least 20 working days before the meeting and can be found on the Company's website at www.rsagroup.com/AGM2015. Presentations are given on the Company's performance and activities during the year and the financial results of the Company prior to the formal business of the meeting. All directors attend the AGM if they are able to do so, with the Chairman and each Board Committee Chair making themselves available to take questions from ordinary shareholders.

Separate resolutions are proposed on each item of business. In accordance with the provisions of the Articles of Association, any proxy form sent by the Company to shareholders in relation to any general meeting must be returned to the Company, whether in written form or in electronic form, not less than 48 hours before the time for holding the meeting, excluding non-business days (or, in the case of a poll taken otherwise than at, or on, the same day as the meeting, not less than 24 hours before the time appointed for the taking of the poll). At any general meeting, every ordinary shareholder present shall have one vote on a show of hands and on a poll, every ordinary shareholder present in person or by proxy shall have one vote for each share of which he/she is the holder. Each resolution will be put to a poll at the AGM in 2015. The results of the vote on each resolution will be announced to the London Stock Exchange and will be available on the Company's website, www.rsagroup.com/AGM2015.

Preference shareholders are only entitled to receive notice of, attend, speak and vote at general meetings if the dividend payable on the Preference Shares is in arrears at the date of the Notice, a resolution is proposed that affects the rights of the preference shareholders, a resolution is proposed to wind up the Company, a resolution is proposed to reduce the capital of the Company (other than a redemption or purchase of shares), or in such other circumstances as the Board shall determine. In any of these situations the preference shareholders may only vote on the relevant resolution and not on all the business of the general meeting.

At the 2014 AGM, an average of 69.17% of the total issued share capital was voted across all resolutions, with an average of 98.29% voting in favour of all resolutions.

CORPORATE RESPONSIBILITY

The Group's Corporate Responsibility programme supports the communities in which we operate with direct corporate donations to registered charities and through supporting our people to volunteer and fundraise. The strategy focuses on helping to create 'Thriving Communities' by targeting two specific issues: Education and Employability; and Enterprise and Entrepreneurship. More detail can be found in the Strategic Report on pages 2 to 47.

Public Affairs

The Group contributes to public policy debate on issues relevant to the business, either individually or through industry bodies such as the Association of British Insurers and the Confederation of British Industry. This can include issues such as flooding, motor insurance, asbestos, renewable energy and financial services regulation. The Company engages with policymakers to improve understanding of the role the insurance industry plays in society and the economy.

Employees apply the principles of openness, transparency, honesty and integrity to all of their activity with policymakers. The Company adheres to principles of best practice, declaring the interests which it represents and ensuring that, to the best of its knowledge, information provided is unbiased, complete, up to date and not misleading.

Each year the Company proposes a resolution authorising political expenditure up to £100,000 for each of donations to political parties and independent election candidates, donations to political organisations and incurring political expenditure. This resolution is proposed in the event that the funding of seminars, functions and charitable donations by the Company may be regarded as political in nature. During the year the Company has not made any donations to political parties or independent election candidates.

Annual Greenhouse Gas Emissions

In accordance with Part 7 of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, certain disclosures are required in respect of greenhouse gas emissions. The information to fulfil this requirement can be found in the Corporate Responsibility section on pages 42 to 43 and is incorporated into this report by reference.

The greenhouse gas emission reporting covers its core businesses of UK, Ireland, Scandinavia, Canada and Latin America, together with its non-core businesses, including wholly owned subsidiaries, leased premises and joint ventures. All material emissions sources reported on are ones deemed to be the responsibility of the Company. The sources align to operational and financial control boundaries. Where data is not provided by the operating entity, estimates have been provided based on relative calculations against other businesses within the Company. The greenhouse gas emissions data and estimations are subject to external assurance by PWC. For a full methodology statement and scope visit www.rsagroup.com/corporate-responsibility.

ACCOUNTABILITY

STATEMENT BY DIRECTORS

Section 414A of the Companies Act 2006 requires the directors to present a Strategic Report of the Company for the financial year ended 31 December 2014. The information that fulfils the requirements set out in Section 414C can be found on pages 2 to 47, and is incorporated by reference into this report.

So far as each director of the Board is aware, there is no relevant audit information (as defined in section 418(3) of the Companies Act 2006) of which the Company's external auditor is unaware, and each director has taken all steps necessary as a director in order to make himself/herself aware of, and to establish that the external auditor is aware of, any relevant audit information.

A balanced and understandable assessment of the Group's position and prospects, and an explanation of its strategy for delivering the objectives of the Company are contained in the Strategic Report on pages 2 to 47 which includes:

- Use of financial instruments by the Company, details of financial risk management objectives and policies of the Company, including the policy for hedging each major type of forecasted transaction for which hedge accounting is used
- The Company's exposure to price risk, credit risk, insurance risk, liquidity risk and cash flow risk
- An indication of likely future developments in the Company's business.

Details of the Group's principal subsidiaries is detailed in note 31 on page 196. A full list of Group subsidiaries will be attached to the Company's next Annual Return and be available from Companies House.

Details of events which have occurred after the reporting period are set out on note 35 on page 199.

There are no activities relevant for disclosure in respect of research and development of the Company.

The directors are responsible for preparing the Annual Report and Accounts and consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's performance, business model and strategy. Further explanation on the assurances undertaken by the Group Audit Committee on behalf of the Board are set out in the Group Audit Committee Report on pages 75 to 79.

The Directors' Responsibility Statement appears on page 107 and is incorporated by reference into this report.

A report from the external auditor can be found on pages 108 to 114.

GOING CONCERN

In considering the appropriateness of the going concern basis, the Board has reviewed the Group's ongoing financial commitments for the next 12 months and beyond. The Board's review included the Group's strategic plans and updated forecasts, capital position, liquidity and credit facilities and investment portfolio. The Group maintains close and regular dialogue with its regulators throughout the journey to internal model approval and the directors are confident that the Group will continue to meet all future regulatory capital requirements. As a result of this review, the directors have satisfied themselves that it is appropriate to prepare these financial statements on a going concern basis.

DELEGATED AUTHORITY AND CORPORATE GOVERNANCE FRAMEWORK

The purpose of the Corporate Governance Framework is to determine how the Group meets its legislative and regulatory governance requirements, enabling effective and efficient decision making by the Board and its Committees. It defines clear responsibilities and defines how the Group is directed and managed.

The Delegated Authority Framework specifies how executive authority is delegated from the Board to the Group Chief Executive and onward delegation to senior management in the Group. The Group Chief Executive and senior management across the Group receive an executive licence setting out their specific limits of authority in terms of when entering into financial, underwriting, claims and other business commitments. Each executive is responsible for ensuring a similar process of delegation is in place within his or her area of responsibility.

This is important as effective management of Delegated Authority enables the business to:

- Ensure that all employees execute their responsibilities within a clearly defined set of limits and subject to specified terms and conditions appropriate to their role, competence, experience and technical capability so as to mitigate the risk of the Group being exposed or committed to material financial, operational, legal, reputational and/or regulatory risk and/or loss
- Ensure consistency is applied. Separate policies have been written covering operational and technical matters aligning all matters
- Ensure that the risks associated with managing and delegating authorities are mitigated through the use of appropriate preventative and detective controls, and remain within the Risk Appetite
- Ensure compliance with relevant regulatory and statutory requirements.

The Delegated Authority Framework is applied across the Group's Businesses where individuals must operate and/or authorise within limits delegated by the Group Chief Executive, his direct reports and/or governing bodies, and ensures consistency between each of the subsidiaries within the Group. The powers of the Board, and the extent to which these powers may be delegated or must be retained, are set out in detail in the Schedule of Matters Reserved for the Board or Terms of Reference for the Board Committees.

Following a review by PWC into the financial and regulatory reporting processes and controls within the Irish business and Group oversight and controls of the Irish business, PWC described the Group's System of Governance and Control Framework as appropriate in terms of structure and design for an international insurance group of this size and complexity, and noted that elements of the Framework's design compared favourably across the market. The PWC review concluded that there were no obvious indicators relating to the issues identified in the Irish business that were ignored, at either Regional or Group level, and neither external audit or an independent reserve review during 2013 and prior years identified the specific issues that led to the reported losses in the Irish business. In January 2014, the PWC Report made a number of recommendations which have been incorporated into a Global programme, commissioned by the Group Audit Committee and Board Risk Committee chairs to enhance the effectiveness of the Internal Control system.

COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE

The UK Corporate Governance Code sets out standards and expectations on corporate governance matters for UK companies. The Financial Reporting Council are responsible for the publication and periodic review of the Code. The latest published version of the 2014 Code can be found at https://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-2014.pdf.

This report together with the Strategic Report, the Group Audit Committee Report and the Directors' Remuneration Report demonstrates how the Principles and Provisions of the 2012 UK Code have been applied.

Throughout the year, the Company has complied with the 2012 Code, with the exception of the period from 1 January 2014 to 4 February 2014 when Martin Scicluna performed the role of Executive Chairman on an interim basis until Stephen Hester joined the Group as Group Chief Executive.

The Company has familiarised itself with the 2014 UK Corporate Governance Code (2014 Code). The changes were reviewed by the Group Nomination and Governance Committee upon publication. The Group Remuneration Committee has taken steps to include provisions to extend the Clawback Policy into its Remuneration Policy with effect from January 2015, to enable the Company to recover sums paid to Executives, in addition to withholding payments due to be made. Further details on the Performance Share Plan can be found in the Directors' Remuneration Report on pages 80 to 106.

CONFLICTS OF INTEREST AND RELATED PARTY TRANSACTIONS

In accordance with section 175 of the Companies Act 2006, each director has a duty to avoid conflicts of interest. Under Articles 91 and 92 of the Company's Articles of Association, conflicts of interest may be authorised by the Board or a Board Committee. Directors are required to notify the Group General Counsel and Company Secretary when a potential conflict of interest arises. Each director's reported conflicts of interest are reviewed on an annual basis. Any director who has declared a conflict of interest shall not count towards the quorum or vote on any resolution to authorise the conflict of interest and, at the Board's discretion, may be excluded from any meeting at which the conflict of interest is under consideration. Where a conflict of interest is authorised, restrictions may be imposed on the conflicted director, such as excluding the director from the discussion or receiving any information in connection with the conflict of interest.

The Board confirms that it has reviewed the schedule of directors' conflicts of interest during the year and that the procedure in place operated effectively in 2014. None of the directors had any interest in any other contract with the Company or any of its subsidiaries during 2014 apart from those disclosed in the Related Party Transactions note 33 on pages 197 to 198.

ESSENTIAL CONTRACTS AND CHANGE OF CONTROL

The Company does not consider that it, or any of its subsidiaries, has any significant agreements to which the Company is a party that take effect, alter or terminate upon a change of control of the Company following a takeover bid that are required to be disclosed pursuant to paragraph 13(2)(i) of Schedule 7 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended), other than as disclosed below:

Under the Company's £500m five-year senior committed debt facility, if a change of control occurs, the facility can be cancelled with immediate effect and all outstanding loans, together with accrued interest, become due and payable, if the majority of lenders require.

The Company does not have agreements with any director or employee that would provide compensation for loss of office or employment resulting from a takeover except that provisions of the Company's share schemes and plans may cause some options and awards granted to employees under such schemes and plans to vest in such circumstances.

DIRECTORS' INDEMNITY

Article 140 of the Articles of Association provides that, among other things and insofar as permitted by law, the Company may indemnify its directors against any liability and may purchase and maintain insurance against any liability. The Company has granted an indemnity to each of the directors pursuant to the power conferred by Article 140 of the Articles of Association. The indemnities granted constitute qualifying third-party indemnity provisions, as defined by section 234 of the Companies Act 2006.

The Company believes that it promotes the success of the Company to provide this indemnity to its directors in order to ensure that the Group attracts and retains high calibre directors through competitive terms of employment in line with market standards. The directors and officers of the Company and its subsidiaries also have the benefit of insurance which provides suitable cover in respect of legal actions brought against them.

In addition, the Company has indemnified the directors of SAL Pension Fund Limited, a majority owned subsidiary of the Group, in relation to its role as Trustee of an occupational pension scheme. This indemnity constitutes a qualifying indemnity provision under section 235 of the Companies Act 2006.

ARTICLES OF ASSOCIATION

The Company's Articles of Association may be amended by special resolution of the Company's ordinary shareholders. The current Articles of Association were adopted at the 2014 AGM and are available on the Company's website at www.rsagroup.com/articles.

BORROWING POWERS

Article 98 of the Articles of Association sets out the restrictions on the borrowings of the Company. The aggregate amount, for the time being, remaining borrowed by the Group must not, without the previous sanction of an ordinary resolution of the Company, be more than one and a half times the aggregate of:

(i) The amount paid up on the issued share capital of the Company

(ii) The total of the capital and revenue reserves of the Group (subject to certain adjustments).

DISCLOSURES REQUIRED UNDER LISTING RULE 9.8.4R

The following table sets out where in the Annual Report and Accounts information required to be disclosed to meet the requirements of Listing Rule 9.8.4R, where applicable, to the Company, can be located:

Information required	Location in Annual Report and Accounts
Dividend waivers	Page 64

DIRECTORS RESPONSIBILITY STATEMENT

The Directors' Responsibility Statement appears on page 107 and is incorporated by reference into this report.

By order of the Board

DEREK WALSH
Group General Counsel and Company Secretary
25 February 2015

BOARD COMMITTEES

The following pages report on the activities of the Board Committees in 2014. These reports are incorporated into the Directors' and Corporate Governance Report by reference.

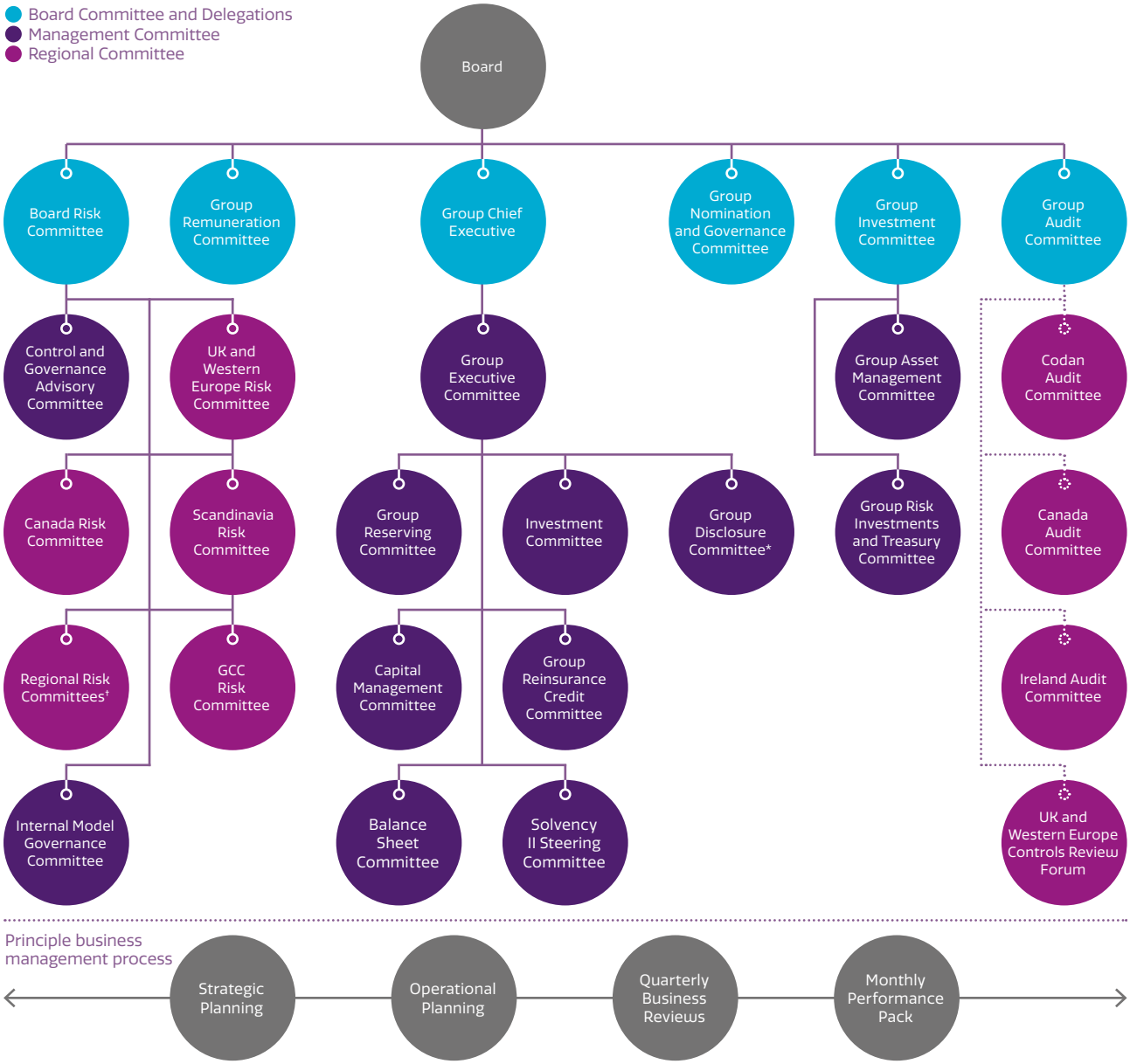
BOARD COMMITTEE AUTHORITY AND MEMBERSHIP

The Board delegates certain duties to its Committees so that matters receive detailed consideration. The Terms of Reference set out the authority delegated from the Board. These have been reviewed and approved for each Committee by the Board during the year and are available on the Company's website at www.rsagroup.com/termsofreference.

The composition of each Committee is recommended by the Group Nomination and Governance Committee to the Board for approval. This is reviewed on an annual basis or more frequently if appropriate. When reviewing Committee membership, consideration is given to each individual's expertise and experience. To enhance the Committee role and effectiveness, each director is a member of multiple Committees to ensure a good exchange of information between the Committees at all times.

The diagram below illustrates the relationship of each Committee to the Board and those subsidiary committees that report information and support the purpose of each Board Committee.

CORPORATE GOVERNANCE FRAMEWORK – STRUCTURE OF BOARD AND COMMITTEES AS AT 31 DECEMBER 2014



*In addition the Group Continuous Disclosure team meet as required.
†Regional Risk Committees comprise of Latin America, Asia, Middle East and Russia.

GROUP NOMINATION AND GOVERNANCE COMMITTEE

As Chairman of the Group Nomination and Governance Committee, the purpose of this report is to update shareholders on the activities of this Committee throughout 2014.

COMMITTEE COMPOSITION

I am supported on the Committee by Alastair Barbour, Hugh Mitchell and Johanna Waterous. Edward Lea was a member of the Committee until his retirement on 8 May 2014 and I would like to thank him for his participation. Attendance at Committee meetings is shown in the table below.

	Meetings Attended
Martin Scicluna*	8/8
Alastair Barbour	8/8
Edward Lea[1]	5/5
Hugh Mitchell	8/8
Johanna Waterous	8/8

* Chair of Committee

Notes:
1. Edward Lea ceased to be a member of the Group Nomination and Governance Committee with effect from 8 May 2014.

ROLE AND RESPONSIBILITIES

The principal role of the Committee is to manage the process, to advise and make recommendations to the Board on matters relating to the Board's membership, Committee membership and related appointments. During 2014, the purpose of the Group Nomination and Governance Committee expanded to formalise its responsibility for governance matters. The name of the Committee now reflects this additional role. As part of this expanded role the Committee monitors compliance against the UK Corporate Governance Code, Board and Committee responsibilities and membership, and the evaluation of Board members' performance.

The Committee keeps under review the capabilities required by the Board, considers the leadership needs of the Group and reviews succession planning for the Board. The Committee makes recommendations to the Board in relation to the appointment of any new Executive and Non-Executive Directors and the re-appointment of directors on an annual basis with a view to ensuring the continued ability of the Company to compete effectively in the marketplace and attract and retain key people. An assessment of the time commitment required to adequately fulfil each role is considered by the Committee and consideration is given to approval of additional commitments of Non-Executive Directors during their tenure, especially where such commitment might affect the time the director is able to devote to their role.

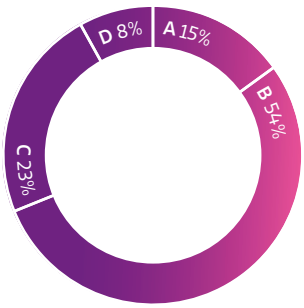
The key areas of focus for the Committee during 2014 are shown in the table below:

Group Nomination and Governance Committee focus during 2014

- Consideration and recommendation of the directors' appointments at the 2014 AGM
- Review of director recruitment
- Consideration of applicants and recommendation of Enrico Cucchiani's appointment as director and Committee member
- Review of Board focus, effectiveness and composition
- Board succession planning
- Diversity, balance, experience and independence on the Board
- Review of Board Committee membership and Terms of Reference
- Review of Group Nomination and Governance Committee responsibilities and effectiveness
- Expansion of the responsibilities of the Committee to include governance matters
- Internal Board and Board Committee evaluation process for 2014
- Review of overseas visits by the Board
- Review feedback from the Board meeting held with the PRA
- Compliance with the 2012 Code
- Review of changes to the 2012 Code.

SKILLS AND EXPERIENCE OF THE BOARD

A Insurance Industry
B Financial Services
C Strategic Management
D Sales and Marketing



SUCCESSION PLANNING, DIVERSITY, SKILLS AND EXPERIENCE

The Committee manages the process of identifying potential Board appointees and recommending candidates for assessment and appointment by the Board as a whole. During the year the Committee continued to focus on ensuring that the right balance of skills, experience, knowledge, independence and the benefits of diversity, including gender was represented on the Board. The Committee ensures the future balance of skills is sustained. In doing so, the Committee identified Enrico Cucchiani as a new appointee and made a recommendation to the Board regarding his appointment as a Director and Committee member. I am delighted to welcome Enrico Cucchiani as an Independent Non-Executive Director, who was appointed to the Group Board and as a member of the Group Remuneration Committee and Board Risk Committee with effect from 1 December 2014. Enrico has extensive experience and knowledge in the global financial services and insurance sector, and has significant Board experience with a number of publicly quoted companies. It had been identified during the external performance evaluation undertaken in 2013, that the Board would benefit from someone with insurance experience. I look forward to the insights and ideas Enrico will bring to the Group Board.

MWM Consulting Limited, an external search agency, were engaged during the year by the Committee to assist the Company in recruiting Enrico Cucchiani as a Non-Executive Director. A description of the role and the capabilities required for the appointment were provided to the agency. Reports on potential appointees were provided to the Committee members who, after careful consideration, made a recommendation to the Board. MWM Consulting Limited is independent and has no other relationship with the Company.

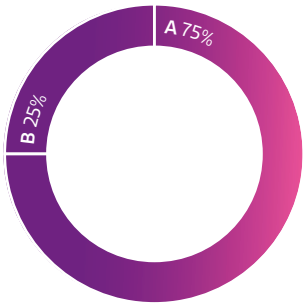
Between 9 May and 1 December 2014, the Company had met the Davies Report requirement of 25% of women on the Board. Following the appointment of Enrico, the composition of the Board is 78% male and 22% female directors but with effect from 7 May 2015 the composition will again revert to 75% male and 25% female directors. We recognise the importance of diversity for Board effectiveness and remain committed to meeting the Davies Report requirements that a minimum of 25% of the Board will be women. All appointments are ultimately made on merit against the agreed selection criteria.

The skills and experience of the Board are varied, with a third of the Board having longevity of service and 67% of the Board having joined over the past three years bringing fresh ideas and experience to the table.

The Committee ensures that an internal Board evaluation process is carried out annually and at least once every three years the evaluation process is carried out by an external party in line with the 2012 Code recommendations.

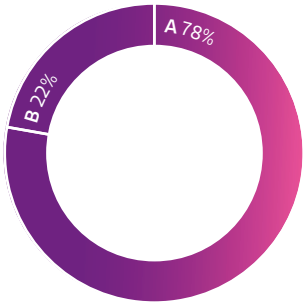
DIVERSITY OF THE BOARD BETWEEN 9 MAY AND 1 DECEMBER 2014

A Male
B Female



DIVERSITY OF THE BOARD AS AT 31 DECEMBER 2014

A Male
B Female



MARTIN SCICLUNA
Chairman of the Board and Chairman of the Group Nomination and Governance Committee
25 February 2015

GROUP INVESTMENT COMMITTEE

As Chairman of the Group Investment Committee, I am pleased to present an update for the year to Shareholders.

COMMITTEE COMPOSITION

I took over as Chair of the Group Investment Committee when Malcolm Le May resigned on 8 May 2014. I would like to thank Malcolm for his contribution as Chairman of the Committee.

Membership of the Committee comprises myself as Chairman, Alastair Barbour, Martin Scicluna, Stephen Hester and Richard Houghton. The Group Investments Director attends all meetings of the Committee to provide an update on the economic and market background and outlook affecting the Group, the investment activities taken since the Committee last met and any portfolio actions which require the Committee's approval.

	Meetings Attended
Jos Streppel*[3]	2/2
Alastair Barbour	2/2
Stephen Hester[1]	2/2
Richard Houghton	2/2
Malcolm Le May[2]	1/1
Martin Scicluna	2/2

* Chair of Committee

Notes:
1. Stephen Hester became a member of the Committee with effect from 5 February 2014.
2. Malcolm Le May ceased to be the Chair and member of the Committee with effect from 8 May 2014.
3. Jos Streppel was appointed as Chair of the Committee with effect from 8 May 2014.

ROLE AND RESPONSIBILITIES

The Group Investment Committee is authorised by the Board to manage all aspects of investment policy and strategy for the Group and provide oversight of the operation of the Group's investment portfolios within established strategy and risk frameworks. The key areas of focus for the Committee during 2014 are shown in the table below.

Group Investment Committee focus during 2014
· Investment updates including: – Economic and market development – Activity, disposition and performance – Economic and market outlook – Investment strategy

INVESTMENT PORTFOLIO

The prolonged low growth and low interest rate environment has continued to dominate the performance of investment markets. Interest rates and bond yields remain at extremely low levels in the major economies in which the Group operates, placing downward pressure on investment income.

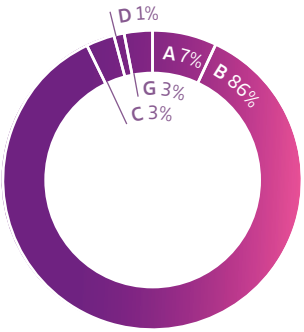
Despite the low yields in bond markets, the Group has maintained its disciplined approach to investment strategy with its focus on maintaining a core high quality, low risk portfolio structure. Over the course of the year the geographical disposition of the portfolio was impacted by both the rights issue and the sale of a number of our overseas subsidiaries. Proceeds from these actions were primarily invested into high quality bonds, maintaining the strong overall credit quality of the Group's portfolios. During the first half of the year our risk position was further reduced through the sale of approximately £300m of equities to improve the capital position of the Group. The proceeds from these sales were again invested into high quality bonds or retained as cash.

The Group has continued to examine alternative strategies to enhance the income generated by its investment portfolios. This has included further modest allocations to funds investing in loans backed by property. All strategies reviewed and approved were consistent with maintaining the Group's prudent risk framework and the Committee monitored asset disposition to ensure implementation remained in line with expectations.

Details of the Group's investments are contained in the Financial Review on pages 26 to 29.

TOTAL ASSETS AS AT 31 DECEMBER 2014: £14.2BN

A Cash
B Fixed income
C Property – Investment
D Equities
E Alternatives and other



JOSEPH STREPPEL
Non-Executive Director and Chairman of the Group Investment Committee
25 February 2015

BOARD RISK COMMITTEE

As Chairman of the Board Risk Committee, I am pleased to present the Committee's report for 2014 to shareholders.

COMMITTEE COMPOSITION

I became Chair of the Committee in May 2014. I would like to thank Edward Lea for his contribution as Chairman of the Committee between March 2013 and May 2014.

During 2014, a review of Committee membership was undertaken. To achieve increased oversight and challenge, the membership of the Committee was updated in September 2014 to comprise Non-Executive Directors only, with myself as Chair, Martin Scicluna, Alastair Barbour, Hugh Mitchell and Enrico Cucchiani as members. The Group Chief Executive, Group Chief Financial Officer and Group Chief Risk Officer are expected to attend by invitation.

Regular attendees also include the Group Risk Director, Group Chief Auditor, Director of Underwriting and the Group Regulatory Compliance Director. Regional risk, underwriting officers and other employees or advisers may attend at the invitation of the Committee. The external auditor also attends meetings by invitation. Attendance at Committee meetings during 2014 is shown in the table below. In addition, private meetings are held ahead of each Committee meeting.

	Meetings Attended
Kath Cates[5*]	4/4
Alastair Barbour	4/4
Enrico Cucchiani[4]	1/1
Stephen Hester[6]	3/3
Richard Houghton[6]	3/3
Edward Lea[3]	1/1
Malcolm Le May[2]	1/1
Hugh Mitchell[1]	2/2
Martin Scicluna	4/4

* Chair of Committee

Notes:
1. Hugh Mitchell became a member of the Committee with effect from 1 July 2014.
2. Malcolm Le May ceased to be a member of the Committee with effect from 8 May 2014.
3. Edward Lea ceased to be Chair and a member of the Committee with effect from 8 May 2014.
4. Enrico Cucchiani became a member of the Committee with effect from 1 December 2014.
5. Kath Cates was appointed Chair of the Committee with effect from 8 May 2014.
6. The Terms of Reference for the Committee were amended at the September meeting, after which Stephen Hester and Richard Houghton ceased to be members, although both still attend meetings at the invitation of the Committee.

ROLE AND RESPONSIBILITIES

A review of the Committee's Terms of Reference was undertaken during 2014 to align the responsibilities of the Committee to the requirements under Solvency II.

The Committee is authorised by the Board to advise on risk management issues, recommend the Group framework of risk limits and risk appetite to the Board for approval and oversee the risk management arrangements of the Company and the Group generally. The Committee ensures that the material risks facing the Group have been identified and that appropriate arrangements are in place to manage and mitigate those risks effectively.

The Committee has four scheduled meetings a year, which are planned to allow reporting from the business to the Committee on a quarterly basis and for the Committee to report any areas of concern or interest to the Board. Additional meetings may be called if required. The Committee reports to the Board on the outcome of meetings and refers matters to the Board as required.

AREAS OF FOCUS

The key areas of focus for the Committee are shown in the table below, with further detail provided in the report that follows.

Board Risk Committee focus during 2014

- Chief Risk Officer overview
- Strategic Risk review
- Risk appetite review and monitoring
- Business Risk review
  - Insurance risk
  - Financial risk
  - Reinsurance risk
  - Operational risk
  - Emerging risks
  - Pension risk
  - FX risk
- Solvency II and capital review
- Own Risk Solvency Assessment (ORSA) and Capital Report
- Internal model validation
- Stress and Scenario Testing design and outcomes
- Remuneration review
- People risk and culture
- System of Governance, including the Risk Management System
- Governance and Controls review
- Review of Group policies
- Risk review of 2015-17 operating plan
- Anti-bribery and corruption
- IT Risk management
- Board Risk Committee governance.

In addition to those areas of focus, certain risk matters were referred to the Board for discussion, including the risks relating to the Group's defined benefit pension scheme.

The Committee has considered and monitored progress of the Global Programme which was commissioned by the Group Audit Committee and Board Risk Committee chairs to enhance the effectiveness of the Internal Control system. This programme has been set up to ensure that the design and implementation of the system of governance provides the Board with appropriate assurance, supported by robust lines of defence, and that this is demonstrable to the Board and regulators.

CAPITAL

The Committee's review of capital included trends, drivers and sensitivities across different measures and consideration of a new capital appetite structure and forecasting.

Outputs of the internal model were used by the Committee as an integral part of its decision making on matters from setting risk appetite and adjusting investment exposure and hedges, to reinsurance strategy, insurance portfolio risk assessment, or assessing key strategic decisions such as disposals. The Committee also oversaw the selection and outputs of a programme of stress and scenario testing, including a focus on capital fungibility within the Group. Regular updates were provided to the Committee by management on the strategic direction of the Group's response to Solvency II, along with regular reviews of validation of the internal capital model and progress towards securing regulatory approval for the model.

GOVERNANCE AND RISK MANAGEMENT

Own Risk and Solvency Assessment

During the year, the Committee considered a range of activities carried out at different times as part of the ORSA. A final report presented to the Committee and the Board in September summarised papers and associated decisions taken during the period to demonstrate that the issues have been dealt with in a coherent and consistent manner.

In addition, significant risk events and breaches, with any evident or emerging trends, were the subject of ongoing analysis by management and consideration by the Committee. The Group Risk team has developed a major event root cause analysis process which helps to embed learnings across the organisation to ensure that similar events do not reoccur.

Enterprise Risk Management

The Business Risk Review presented at each meeting to the Committee covered insurance risk, including remediation progress on specific risk portfolios, financial risk, reinsurance risk and strategy.

In June, an IT risk update presented to the Committee provided clarity of the framework and responsibilities of the Information Security Risk and Control Environment, including considerations of risks and actions from specific highlighted weaknesses in a range of IT controls following recent internal and external audit activity, some of which had been recurring. This arose from the Committee's regular oversight of the overall status of compliance with each of the Group's internal policies.

The Board Risk Committee continued to receive regular updates on people risk and since the 2013 update, significant progress has been made on the Cultural Health Index, which was initiated early in 2014. The Committee places customers high on its agenda and regularly considers customer and conduct metrics and risks. In addition to the quarterly regulatory risk update, the Board Risk Committee requested Regulatory Compliance to provide an update on how we meet conduct regulation globally and how this aligns with our Conduct Risk Appetite.

The Group's Remuneration Policy is reviewed by the Committee at least annually, to ensure that risk is properly considered in the overall setting of the policy for the Group and the remuneration of executive directors and other senior management.

During the year the Group's Risk Appetite was reviewed by the Committee. We have developed a new Risk Appetite architecture, enhancing the existing approach. This ensures Solvency II compliance and reflects the developing industry thinking on Risk Appetite. Key Risk Indicators (KRIs) have also been revised and simplified.

The risk department undertook an independent analysis of the Group's operating plan from a risk perspective which was reviewed and challenged by the Committee and outcomes communicated to management.

The emerging risks profile was refreshed in liaison with external agencies, building on participation with the CRO Forum Emerging Risks Working Group. This included a focus on the potential impact of global weather trends with a presentation by external experts. There has been a rotating focus on individual regions, with regional presentations from all regional risk officers over the last 12 months.

The Committee considered significant changes in the risk profile and risk appetite during the year including the rights issue, a programme of disposals of non-core businesses, a reduction in equity exposures in the investment portfolio and further enhancements to the reinsurance programme structure.

Performance Evaluation

During the year, the Committee undertook an internal review of its effectiveness and the outcomes of this review were considered by the Board.

KATH CATES
Non-Executive Director and Chair
of the Board Risk Committee
25 February 2015

GROUP AUDIT COMMITTEE REPORT

I am pleased to present to shareholders the Group Audit Committee Report for 2014, which sets out the responsibilities and the key activities of the Committee, recognising its role in the governance of the Company. I would like to welcome Jos Streppel, who joined the Committee on 8 May 2014. As an introduction to the report, the principal areas of focus for the Committee are shown in the table below, with further detail provided in the report that follows.

Group Audit Committee focus during 2014

- Reviewing all scheduled results announcements
- Financial accounting and reporting matters
- Financial Control Framework
- Reviewing the effectiveness of internal control and risk management processes
- Selection and recommendation regarding the appointment of the external auditor
- Overseeing the external audit plan, progress and reporting by KPMG
- Group and regional Internal Audit Reports and plan for 2015
- Regulatory Risk and Compliance updates and plans
- Financial crime, money laundering and whistleblowing procedures.

A primary focus for the Committee has been reviewing all scheduled results announcements; the 2013 Annual Report and Accounts with particular emphasis on their fair presentation; the reasonableness of judgements made; valuation of assets and liability balances and the appropriateness of significant accounting policies used in their preparation, together with the application of those policies.

The Committee has reviewed the Group's financial reporting, internal control and risk management systems. The Committee has overseen, through regular reporting, the Group-wide project launched to review and, where appropriate, codify or enhance, risk policies and control processes following from events in Ireland at the end of 2013.

During the year, the Committee was internally evaluated as part of the wider review of the Board and its Committees, the outcome of which can be found on pages 60 to 61.

ROLE AND RESPONSIBILITIES

The purpose of the Committee is to assist the Board in discharging its responsibilities for the integrity of the Annual Report and Financial Statements, for the effectiveness of the systems of internal control and financial and regulatory risk management systems, and for monitoring the effectiveness and objectivity of the internal and external auditors.

The Committee has unrestricted access to management, information and external advisers as required in order to fulfil its duties, and is satisfied that it has received sufficient, reliable and timely information during 2014, in order to discharge those duties.

COMMITTEE COMPOSITION, SKILLS AND EXPERIENCE

The Committee is comprised of four independent Non-Executive Directors. With effect from 8 May 2014, Jos Streppel was appointed to the Committee, bringing significant financial reporting and international insurance management experience. The Board is satisfied that the Committee has recent and relevant financial experience as required by the 2012 Code, with all members bringing diverse financial, overseas and industry experience which, together with their varied tenure at the Company, enables the members collectively to act as an effective Committee. In addition, two of the four Committee members are also members of the Board Risk Committee, facilitating close working and ready exchange of information between the two Committees.

The Committee acknowledges the importance of keeping skills current and relevant. To that end, it receives training from professional services firms and from management. The Committee members review and identify training needs on both a collective and individual basis, and training is arranged as appropriate.

MEETINGS

The Committee held five scheduled meetings during the year: four were timed to allow consideration of the financial information being presented to the market in respect of the Group's full-year and half-year results and to consider key financial matters supporting the two interim management statements. The final meeting in December considered and approved the Group Internal Audit and Regulatory Risk and Compliance plans for 2015, and considered matters which were anticipated would impact the 2014 year-end financial reporting processes. A further special meeting was held in early February 2015 to consider 2014 year-end financial reporting matters including impairment testing of goodwill balances and the carrying value of intangible assets.

The Committee members met privately before each scheduled meeting to discuss issues on which to concentrate with management and advisers in the meeting. The Committee held regular private meetings with the Group Chief Auditor and the external auditor without other members of management being present.

The Group Chief Executive, the Group CFO, the Group Chief Auditor, the Group Regulatory Compliance Director and representatives of the external auditor, KPMG, are regular attendees at Committee meetings by invitation. The Chairman attended Committee meetings in February and August, when full-year and half-year results were considered. Other members of management and external advisers may attend at the invitation of the Committee.

Details of membership and attendance at Committee meetings are shown in the table below.

	Meetings Attended
Alastair Barbour*	5/5
Edward Lea[1]	2/2
Johanna Waterous	4/5
Kath Cates	5/5
Jos Streppel[2]	2/3

* Chair of Committee

Notes:
1. Edward Lea ceased to be a member of the Group Audit Committee with effect from 8 May 2014.
2. Jos Streppel became a member of the Group Audit Committee with effect from 8 May 2014.

The Committee has been assisted in carrying out its duties by the Group Disclosure Committee which meets quarterly, and is responsible for considering and identifying any disclosure matters in connection with the preparation of quarterly market releases containing material financial information. The Group Disclosure Committee is chaired by the Group General Counsel and Company Secretary and comprises members of senior management from Finance, Legal, Investor Relations, Company Secretarial and Risk.

The Committee Chairman reports to the Board on the outcome of Committee meetings and the Board also receives the minutes of Committee meetings.

Whistleblowing

The Group has a whistleblowing policy, the effectiveness of which is reviewed annually by the Committee. The aim of the policy is to provide employees with a confidential forum to raise concerns in good faith where they either do not feel comfortable raising the matter with local management or are not satisfied with the local management response. A summary of all whistleblowing incidents, underlying investigations and actions undertaken is provided to the Committee on an annual basis.

The Committee considered, as part of the annual effectiveness review, changes made to the policy in response to events in Ireland in 2013 and satisfied itself that the policy continues to be readily accessible, communicated to, and understood by, employees across the Group. Training on the revised policy and updated procedures has been rolled out to all members of staff and to directors.

Financial reporting and significant financial issues

The Committee attaches great importance to the work, opinions and findings of the external auditor, KPMG. The auditor participates in all Committee meetings and met privately with the Committee on two occasions. During the year the Committee's principal interactions with the auditor were:

- Consideration of the strategy and plan for the audit of the financial statements including: discussion and challenge in relation to materiality levels set; the scope of proposed audit coverage by business unit; determination and approach to the audit of key areas of risk; understanding the oversight by the group audit team of subsidiary business unit audit teams and visits by the group team to business units.
- At the half-year and year end, detailed discussion and consideration of their findings and opinions in relation to the key risk areas, judgements made, any changes to the plan and to materiality and discussion of the underlying reasons.
- Consideration of their wider comments on governance, financial reporting processes and efficiencies and information systems and controls, with particular focus on general IT controls.
- Consideration of their observations on controls and processes as reported to management and follow up with relevant management to be satisfied that the observations are being appropriately actioned.

The main matters and primary areas of judgement addressed and concluded on by the Committee were as follows:

Irish accounts and balance sheet substantiation

- Following the discovery of the accounting irregularities in Ireland in late 2013, actions continued throughout 2014 to investigate and substantiate balances in the Irish balance sheet with a comprehensive review of business plans also being undertaken. The Committee received detailed information on this review and, after discussion and challenge, concurred with management's view that further impairment of goodwill and intangibles was appropriate.

Valuation of investment assets

- In order to satisfy the Committee that the investment assets are fairly stated, the Committee receives and reviews quarterly updates detailing the valuation together with the movement in the value of the investment portfolio. The Committee also reviews the quarterly Financial Control Framework Report, which details the effectiveness of controls over investment accounting. The Committee noted that no significant issues have arisen.

Valuation of insurance liabilities

- The Committee has ensured that management exercised appropriate judgement in estimating insurance contract liabilities including assessing the impact of claims trends and other influencing factors consistent with the prior year. This year the Committee again examined the appropriateness of discount rates on certain long-tail liabilities particularly in light of falling bonds yields:

- The Committee received and reviewed actuarial reserving reports which described the basis for judgement in valuing insurance liabilities. The Committee satisfied itself that management reflected available and reliable information when setting the reserves and that an appropriate margin was maintained.
- The Committee discussed and considered with management the basis for setting the rates used to discount long-tail liabilities and after review concluded that the basis be modified to more closely reflect a market yield approach, the revised basis continuing to be in line with accounting standards. The main impact of the change has been to reduce discount rates for disability in Scandinavia from 3.7% to 1.3%.
- The Committee considered the results of an external review of the Group's reserving practices and governance in respect of setting and monitoring reserves together with reports from the Group-wide project undertaken to review and enhance control processes and concluded that the processes in place are appropriate.
- The Committee received and considered detailed written and verbal reporting from the external auditor setting out their observations and conclusions in respect of the recorded insurance contract liabilities based on their audit procedures as further described in their report on pages 108 to 114.

Valuation of assets and liabilities held for sale and discontinued operations

- As part of the restructuring programme the Group has made a number of disposals throughout 2014. Progress on the disposal programme has been reported to the Committee on a quarterly basis and the Committee has focused on the accounting consequences of classifying businesses as 'held for sale' as well as considering whether they met the requirements for presentation as discontinued operations. This was assessed both for the announced upcoming disposals of China, Singapore, Hong Kong and Italy, together with the accounting on the completed disposals of Poland, Latvia, Lithuania, Estonia and Noraxis (the broker business in Canada). The Committee has satisfied itself that the disposals activities have been appropriately reflected in the financial statements.

Valuation of goodwill and other intangibles assets

- At the year end a comprehensive review of goodwill and intangibles was presented to the Committee, which detailed the main assumptions used to support the recoverability of each asset, together with sensitivities to key assumptions. As an integral part of the consideration of the carrying value of goodwill and intangible assets, the Committee discussed with KPMG their audit procedures and their views on any proposed adjustments and the adequacy of disclosures in the notes to the financial statements. The Committee considered in detail management's proposal to impair the goodwill in both Ireland and Russia and after discussion and challenge, accepted management's judgement on the impairment. The Committee also supported management's judgement on the assessment of other goodwill balances carried by the Group. The Committee further considered the carrying value of software in Scandinavia and in view of changes to expectations of future benefits, as a result of the business review and ongoing restructuring, agreed that a further write down of certain capitalised software was appropriate.

Valuation of deferred tax assets

- The Committee reviewed the key assumptions and financial projections supporting the UK deferred tax asset. The Committee assessed the forecasts presented by management and in particular, the longer-term projections of profitability in light of the changes to business plans as a result of the strategic review, revisions to restructuring activities and other management actions in progress or contemplated. After discussion and challenge, the Committee concluded that management's proposed assessment as to the recoverable deferred tax was reasonable.

Employee benefits and retirement obligations

- During 2014, the Committee received reports on the valuation of the pension schemes. As the pension schemes are sensitive to changes in key assumptions, management completed an assessment as to the appropriateness of the assumptions used and reported their findings to the Committee. The Committee supported the conclusion that the assumptions used were appropriate and in line with other companies with similar schemes. In addition, any non-standard changes in assumptions and judgements are reviewed by the Committee: management reviewed the methodology used to assess the fair value of the longevity arrangements and recommended a change to the basis on which underlying cash flows are valued. Following discussion and challenge the Committee agreed with management's assessment. During 2014, the Committee also discussed the buy-out value of the pension schemes' liabilities and agreed with management that it was appropriate to include information in respect of the buy-out values in the Annual Report and Accounts.

Assessment of the Annual Report and Accounts

- At the request of the Board, the Committee considered whether the 2014 Annual Report and Accounts were fair, balanced and understandable and whether the disclosures were appropriate. To ensure that new accounting standards were understood and appropriately reflected in the financial statements, the Committee received quarterly updates of all relevant accounting standards that could impact the financial statements. The Group has not made any significant changes to its accounting policies during 2014 and has complied with new IFRS' as required during the year. Taken as a whole, the Committee is satisfied that the Annual Report and Accounts is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

FINANCIAL CONTROL FRAMEWORK

The Financial Control Framework aims to deliver a consistent approach to finance related controls across the Group. The framework ensures that controls are fit for purpose in all regions. Embedding a control culture that strengthens the Group's financial control environment and ensures financial processes are managed effectively in order to mitigate the risk of financial misstatement. The process involves documenting and testing the operation of key financial controls, thereby providing an acceptable degree of assurance around the financial control environment.

During the year the Committee received quarterly updates on the assessment and testing of controls including breaches and the action taken as a result. The Committee considered and discussed with management rectification of any deficiencies in controls and further action to be taken as appropriate. The Financial Control framework is subject to regular effectiveness assessments by an independent team at Group Corporate Centre and the results of this work were reported to the Committee both as part of the regular reporting and at a separate meeting held to consider the quality of the overall financial control environment across the Group.

INTERNAL CONTROL

The Board has overall responsibility for the effectiveness of internal control systems, with the implementation and maintenance being delegated to the Executive Directors and senior management.

The Committee reviews the performance of internal control systems quarterly, with an annual review undertaken by the Board. This system includes governance, financial controls, the risk management framework and processes to deliver regulatory and compliance requirements. In addition, the Board, through the Board Risk Committee, considers reports from risk specialists across the Group and reviews Group-level risk management information. The systems are designed to identify and mitigate, rather than eliminate, the potential risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material financial misstatement or loss.

In February 2015, the Committee on behalf of the Board reviewed the systems of internal control in operation during 2014. The conclusion reached by the Board in conjunction with management on the basis of the reviews, and the work undertaken as part of the project to review and enhance control processes, as described on pages 44 to 47, was that overall no significant failings or weaknesses in the Group's control environment during 2014 were identified.

The Committee received regular reports from the Group Chief Auditor on the integrity of the control environment, and from the external auditor based on its audit work. Findings and recommendations arising from internal and external audit work were discussed by the Committee together with any control improvements recommended.

During 2014, the Committee received updates from the Chief Information Officer on the progress to enhance IT general controls, the oversight of IT testing processes, staff training and improvements in documentation and standards. The Committee is satisfied that good progress is being made in these areas. Business managers across the Group complete a quarterly self-certification process which requires them to confirm the adequacy of controls and their compliance with Company policies, local laws, rules and regulations.

The reporting framework delivers information to enable the systems of internal control to be monitored and their effectiveness to be reviewed as required by the 2012 Code. The Board considers that an ongoing process for identifying, evaluating and managing the significant risks faced by the Group has been in place during 2014, and up to the date of approval of the Annual Report and Accounts. This process accords with the latest Turnbull Guidance.

GROUP INTERNAL AUDIT

The Committee oversees and reviews the activities and effectiveness of Group Internal Audit (GIA) who assist in accomplishing the Group's objectives by evaluating the Group's risk management, control and governance processes, and assist with improving their effectiveness. Their primary role is to help the Board and Executive Management to protect the assets, reputation and sustainability of the organisation. The scope of GIA is unrestricted.

A comprehensive, risk-based audit plan is prepared by GIA on an annual basis, taking into consideration the key strategic and emerging risks facing the Group. Regular updates were provided to the Committee on the progress of the 2014 plan, and in December the 2015 Audit plan was reviewed, challenged and approved by the Committee. The Committee received quarterly reports from GIA on their assessment of the internal control environment of the Group and management were required to present to the Committee their views on the key risks and issues identified by GIA, along with the related remediation plans.

EXTERNAL AUDITOR

In 2014, the Board recommended to shareholders the appointment of KPMG LLP as external auditor to the Company. KPMG was appointed as the Group's auditor in 2013 following a formal tender process. A resolution was put to shareholders and passed at the 2014 AGM.

The Committee has provided clear guidance to KPMG on the Committee's expectations of them as part of their roles as auditor; that the Committee, not management, is their client; that they are expected to challenge appropriately; that they are expected to raise issues and concerns with the Committee as soon as is appropriate; and on material matters they are expected to indicate their agreement to the position taken by management, or to explain why they do not, and the implications.

It is the intention of the Committee that the Company will adhere to the 2012 Code requirement of tendering for the external auditor at least every 10 years.

The Group has an embedded non-audit services policy to assist with maintaining the independence of the external auditor and its personnel. The policy permits only specifically defined services considered to be audit related to be performed by the auditor, and that all non-audit services must be approved by the Committee. A limit in value of non-audit fees incurred by the auditor, of 25% of total audit fees for a financial year, has been introduced. In exceptional circumstances the auditor could be considered for additional services where there is an overwhelming business rationale, but only with full Board approval. A summary of the policy is available on the Company's website at www.rsagroup.com/termsofreference.

The Committee receives and reviews a report on the non-audit services and spend quarterly, together with information on fees agreed and billed by the other major accounting firms. During the year KPMG provided non-audit services totalling £1.6 million (2013 £2.2 million) of which £0.8 million related to the work carried out on the rights issue. The additional work on the rights issue was approved by the Board in line with policy.

The Committee undertakes a thorough review of the effectiveness of the external auditor on an annual basis, usually during completion of the year-end audit. The review has covered the perceived quality, effectiveness, objectivity and independence of the external auditor together with their compliance of the Committee's guidance referred to above. It was conducted by seeking the views of the Committee, senior management and members of the Group Financial Reporting team, and asking for opinions against set criteria and the performance of the external auditor against those criteria. On the basis of the review, the Committee is satisfied with the work of KPMG and that they are objective and independent. Accordingly, the Committee has recommended to the Board that a resolution be put to the 2015 AGM for the reappointment of KPMG LLP as external auditor, and the Board has accepted this recommendation.

There are no contractual obligations restricting the Company's choice of external auditor and there is no limitation of liability in the terms of the appointment of KPMG LLP as auditor to the Company.

ALASTAIR WS BARBOUR FCA
Non-Executive Director and Chairman of the Group Audit Committee
25 February 2015

Directors' Remuneration Report

Committee Chairman's letter

INDEX TO THE REPORT

Dear Shareholder,

As Chairman of the Group Remuneration Committee of the Board, I am pleased to present this Report covering the year to 31 December 2014 for your approval.

LINKING REMUNERATION WITH PERFORMANCE

In 2014, considerable progress has been made on business restructuring, most notably a strengthened capital position, expense reduction and a more focused portfolio of core businesses. Financial performance fell short of our ambition, driven mainly by prior year events. The key performance indicators underpinning the business financials are detailed on pages 24 to 25. The Group reported a return to profitability with a pre-tax profit of £275m. Combined Operating Ratio was 98.8%, Net Written Premium was £7.5bn and Group underlying ROTE was 9.7%.

At the start of the year, a Business Review component was built into the Group's incentive plans, to align them to the turnaround strategy.

Significant headway against the Business Review objectives has been made, with the successful completion of the Rights Issue and over delivery against the disposal programme. Substantial advances have also been seen in portfolio management optimisation, improving organisational efficiency and expense reduction. In addition management has continued to place emphasis on the implementation and embedding of internal controls as well as identifying additional revenue opportunities to support future growth.

The Business Review Scorecard indicators include IGD Surplus at £1.8bn, ECA Surplus at £0.9bn and the S&P credit rating re-established at A stable, showing significant steps forward against in-year and multi-year objectives that management was tasked to deliver.

A careful assessment of performance has been made, taking account of financial, Business Review and personal achievment, as well as input from a risk perspective. This has ensured that executive remuneration reflects RSA's underlying performance. The Committee has been mindful of the need to be balanced, taking into account the financial results and focus on expense saving across the Group, whilst also wanting to acknowledge and encourage the progress made towards achieving strategic and business goals.

Consequently, I can advise that:

- Salaries will be unchanged for 2015 for the Executive Directors, this follows a salary freeze in 2014
- Bonuses were awarded at 68% and 13% of the maxiumum for Stephen Hester and Richard Houghton respectively for 2014 performance, with half being deferred into shares for three years
- None of the performance-based long-term incentive plan (LTIP) awards from the 2012–14 cycle will vest.

A new long-term incentive plan was approved at the 2014 AGM. The conditional performance shares subsequently granted to Executive Directors will vest after three years, subject to the achievement of stretching performance conditions and are subject to a two-year retention period.

Details of the implementation of the Group's remuneration approach in 2014 are set out on pages 85 to 94.

ALIGNING REMUNERATION AND STRATEGY IN 2015

The Group's Remuneration Policy was approved by shareholders at the AGM on 9 May 2014. The Committee considers that the Policy remains aligned to the business strategy, the long-term interests of the Company and its shareholders, and so no changes are proposed to it this year.

Details of the Policy are given on pages 99 to 106 for information, and the full Policy Report is in the 2013 Directors' Remuneration Report, available in the Investor Relations section of www.rsagroup.com.

In 2015, the Policy will be implemented in the following ways:

- The Executive Director's incentive plans will continue to align management and shareholders' interests by measuring performance against profit, underwriting performance, shareholder returns, balance sheet strength, capital strength, expense goals and management actions which include a focus on risk.
- The Annual Bonus Plan for 2015 will include financial measures, Business Review and personal targets. The ratio of TNAV to Net Written Premium (TNAV:NWP) will be included in the Business Review Scorecard as a measure of capital strength and the organisation's sustainability.
- Performance Shares granted in the 2015-17 cycle will vest subject to the achievement of stretching performance conditions, which will continue to be structured around the turnaround and include:
  - Relative TSR, which will be measured against an unweighted index of insurers, as in the 2014-16 cycle
  - Average Group underlying ROTE of 11-16% over three years. To reflect the nature of a turnaround where ROTE performance is targeted to improve over the three year averaging period, the ROTE 'on-target' vesting will be set at less than the mid-point of the range, taking account of the operating plan. The precise target is considered by the directors to be commercially sensitive but will be disclosed retrospectively. The Committee retains discretion to reduce the level of vesting should the ROTE outcome for 2017 fall short of the medium-term performance targets set out in the Strategic Report on page 17.
  - A Business Review Scorecard, which will be strengthened taking into account the progress made in 2014, and will additionally include TNAV:NWP, and the revised controllable expense targets detailed on page 23 over the three-year performance period.
- In recognition of Stephen Hester's criticality to the transformation of the Company over the next few years, his performance share grant in 2015 will be at 300% of salary at maximum vesting. His future LTIP grants will be made at no more than 230% of salary, which is the Group's usual level of award for Executive Directors.
- The incentive framework will apply to other senior leaders across the Group except those in risk, audit and compliance where bonus arrangements are tailored to maintain their independence.
- New clawback provisions will apply to both cash bonuses awarded for 2015 performance, and performance shares granted from 2015, as detailed on page 89.

The Board Risk Committee Chairman, Kath Cates, joined the Remuneration Committee in May 2014, which together with my membership of the Board Risk Committee ensures we have integrated decision making.

Details on how the Remuneration Policy will be implemented in 2015 are set out on pages 95 to 97.

DIRECTOR CHANGES

A number of Executive Director changes took place in the year. Stephen Hester's appointment terms were set out in last year's report. Adrian Brown, Chief Executive UK and Western Europe, resigned from the Board on 16 April 2014 and left the Company on 31 August 2014. Mr Brown will not receive a bonus for 2014 and his unvested LTIP awards have lapsed.

Richard Houghton, Group Chief Financial Officer, will step down from the Board on 7 May 2015 and leave the Group once a successor is appointed. He will not receive an LTIP grant or a bonus for the 2015 year. His unvested long-term incentive awards will vest on the normal schedule, pro-rated for time and achievement of their performance conditions.

SHAREHOLDER ENGAGEMENT

In early 2014, the Committee engaged with the Group's largest shareholders and the ABI, NAPF and ISS on the remuneration structure. Following shareholder approval of the Remuneration Policy in May 2014, the Committee has continued this dialogue. It has shared information and taken on board feedback in respect of the incentive plan performance measures for the 2015 cycle.

I remain committed to ensuring our remuneration decisions fairly reflect performance and our duty to shareholders. I hope you find this report useful and the Board looks forward to your support for it at the AGM.

HUGH S MITCHELL
Non-Executive Director and Chairman of Group Remuneration Committee
25 February 2015

Remuneration Snapshot

HOW IS RSA IMPLEMENTING ITS APPROVED REMUNERATION POLICY FOR EXECUTIVE DIRECTORS?

Policy summary for 2014 onwards	Opportunity and performance conditions	Implementation in 2014 (pages 85 to 94)	Implementation in 2015 (pages 95 to 97)
Base salary · Market competitive. · Reviewed annually.	· Other than exceptional circumstances such as a role change, salary increases will not exceed the level of increases applied to other RSA employees.	· No salary increases effective 1 April 2014.	· No salary increases effective 1 April 2015.
Annual Bonus Plan · Financial and non-financial targets. · Fifty per cent of the bonus deferred into shares for three years. · Subject to RSA's Clawback Policy as detailed on page 89.	· 80% of salary on-target and 160% of salary for maximum performance. · Targets aligned to operational plan.	· 2014 performance measures: Group underlying ROTE and PBT, Group COR, Business Review and Personal Scorecards. · Bonuses awarded at 68% and 13% of the maximum for Stephen Hester and Richard Houghton respectively.	· Introduction of TNAV:NWP performance measure to Business Review Scorecard. · Extension to Clawback Policy to allow recovery of cash bonuses paid for 2015 performance year onwards.
Long-term Incentive Plan · Performance shares granted annually which vest subject to performance conditions measured over three years. · Two-year additional retention period on vested performance-based awards. · Subject to RSA's Clawback Policy as detailed on page 89.	· Up to 230% of salary at maximum. · For recruitment purposes, or in highly exceptional circumstances, such as for retention, an award may be made up to an additional 170% of salary.	*Awards granted (2014-16 cycle)* · Conditional grants for Group Chief Executive and Group CFO (300% and 230% of salary respectively). · Performance conditions: Relative TSR, Group underlying ROTE and Business Review Scorecard. *Awards vesting (2012-14 cycle)* · 0% vesting on performance-based awards.	*Awards granted (2015-17 cycle)* · Conditional grant for Group Chief Executive (300% of salary, in view of his criticality to company turnaround). · Performance conditions: Relative TSR, Group underlying ROTE and Business Review Scorecard (to also include TNAV:NWP and controllable expenses). · Clawback can apply to vested awards granted from 2015.

HOW WAS REWARD ALIGNED TO THE BUSINESS STRATEGY IN 2014?

Strategic Priorities:	Key Performance Indicators	Annual Bonus Plan 2014	Long-term incentive cycle 2014-16
Business Review: - Strategic Focus, - Capital and Balance Sheet Strength, - Performance Improvement	Capital metrics: TNAV, IGD, ECA	*Business Review Scorecard:* Capital metrics, Management actions including expenses	*Business Review Scorecard:* Capital metrics, Cumulative earnings, Growth in TNAV per Share
Profitability	Group underlying PBT, Group COR	Group underlying PBT, Group COR	Cumulative earnings
Shareholder Value	Group underlying ROTE	Group underlying ROTE	Group underlying ROTE (3-year average), Relative TSR

HOW HAVE WE PERFORMED AGAINST OUR OBJECTIVES?

Annual Bonus Plan 2014

Performance measures	Actual performance	Weighting (% total bonus)	Stephen Hester (% of max)
Group underlying ROTE, PBT, COR	Performance targets, results and narrative on pages 86 to 87	40%	13%
Business Review Scorecard		30%	25%
Personal Scorecard		30%	30%
Total (% of maximum)		100%	68%

Long-term incentive cycle 2012-14

Performance measures	Actual performance	**Vesting (% of maximum)**
Relative TSR	Performance targets, results and narrative on page 88	0%
Group underlying ROE		0%

WHAT REMUNERATION DID THE EXECUTIVE DIRECTORS RECEIVE IN 2014? (details on page 85)

	Salary		Taxable benefits		Bonus		LTIP		Pension related benefits		Other remuneration		Total	
(£'000)	**2014**	2013	**2014**	2013[1]	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Adrian Brown[2]	**143**	482	**15**	43	**–**	–	**–**	–	**24**	84	**1**	2	**183**	611
Stephen Hester[2]	**864**	–	**57**	–	**939**	–	**–**	–	**258**	–	**–**	–	**2,118**	–
Richard Houghton	**494**	491	**21**	19	**100**	–	**–**	–	**67**	70	**–**	–	**682**	580
Simon Lee	**–**	778	**–**	37	**–**	–	**–**	–	**–**	194	**–**	2	**–**	1,011
Total	**1,501**	1,751	**93**	99	**1,039**	–	**–**	–	**349**	348	**1**	4	**2,983**	2,202

Notes:
1. Figures are restated to include an amount in respect of tax payable on the benefits provided in the relevant financial year on behalf of the director. Previously, tax had been included based on date paid.
2. 2014 salary figures are pro-rated for time served as directors during the year.

Annual Report on Remuneration

1. INTRODUCTION

This section of the Directors' Remuneration Report describes the way in which remuneration decisions have been carried out in the financial year ended 31 December 2014. There is a statement on how the Group intends to implement its Remuneration Policy in 2015 on pages 95 to 97. Any information contained in this section of the report that is subject to audit is highlighted.

2. INFORMATION ABOUT THE GROUP REMUNERATION COMMITTEE

PURPOSE OF THE COMMITTEE

The Group Remuneration Committee (the Committee) is a formal committee of the Board, accountable to shareholders through its policies and actions. It updates shareholders via the publication of the Directors' Remuneration Report. At the AGM on 8 May 2015, the Annual Report section on these pages, 83 to 98, together with the Committee Chairman's letter on pages 80 to 81, will be put to an advisory vote. The Remuneration Policy was approved by shareholders at the AGM on 9 May 2014, and was effective from this date. The Policy is not subject to a vote this year, but is detailed on pages 99 to 106 for ease of reference.

The Committee determines the remuneration and contractual terms for the Executive Directors and the Executive Committee (whose profiles are contained on pages 50 to 53). It also approves the fee and contractual terms of the Chairman (whose profile is on page 50).

The decisions the Committee makes are intended to promote the ongoing success of the Group, whilst upholding the interests of shareholders, regulators, customers and other stakeholders. Consequently, it pays close attention to the Group's risk management policies, ensuring that these are considered alongside other relevant information so that its actions are balanced, appropriate and support the Group's strategy.

To enable the Committee to fulfil its accountabilities to shareholders, it meets as often as is required and at least twice a year. It operates within an agreed set of terms, which the Committee reviews annually. A copy of these terms of reference can be viewed on the Group's website at: www.rsagroup.com or alternatively a paper copy can be requested in writing from the Group Company Secretary.

COMMITTEE MEMBERS

The Committee comprises a number of independent Non-Executive Directors who are called upon to exercise judgement on the setting and management of executive remuneration. The Committee's members in 2014 are detailed in the table below. The number of meetings each Director attended is shown as a proportion of the total number of meetings held during the period of the year in which they were a Committee member.

Committee member	Meetings in 2014 (5)
Hugh Mitchell*	5/5
Kath Cates[1]	2/2
Enrico Cucchiani[2]	1/1
Malcolm Le May[3]	2/3
Jos Streppel	3/5
Johanna Waterous	5/5

Notes:
* Chair of Committee
1. Kath Cates was appointed to the Committee effective 8 May 2014.
2. Enrico Cucchiani was appointed to the Committee effective December 2014.
3. Malcolm Le May was a member of the Committee until 8 May 2014.

COMMITTEE ATTENDEES

The Chairman, Group Chief Executive and other senior executives attend Committee meetings by invitation to advise on Group strategy, performance, HR and remuneration policies and practices. However, none of these executives have a right to attend and are not present if their own remuneration is being discussed. The table below notes the Committee attendees during 2014.

Committee attendee	Position
Martin Scicluna	Chairman
Derek Walsh	Group General Counsel (Secretary to the Committee)
Stephen Hester	Group Chief Executive
Vanessa Evans	Group Human Resources Director
Leigh Harrison[1] Lorna Benton[2]	Group Reward Director

Notes:
1. Attended meetings from January to September 2014.
2. Attended meetings from September to December 2014.

COMMITTEE ADVISORS

PricewaterhouseCoopers (PwC) was formally appointed by the Committee as its independent advisor in September 2012. It was selected following a market tender exercise. During 2014, PwC also provided wide-ranging advice and consultancy services across the Group globally on matters including business processes, IT, internal audit, corporate social responsibility, direct and indirect tax, and governance. PwC is a member of the Remuneration Consultants' Group and a signatory to its Code of Conduct. In addition, the Committee has satisfied itself that the advice it receives is objective and independent as the firm has confirmed there are no conflicts of interests arising between it, its advisors and RSA. The fee paid for services to the Committee in the year was £94,000 excluding VAT, based on a fixed fee for a defined scope of work, and hourly rates for specific projects.

COMMITTEE MEETINGS HELD IN 2014

In 2014, the Committee met on five occasions and the table below summarises the matters it discussed.

Meeting	Regular items	Additional items
January	· Review of 2014 incentive performance conditions	· Appointment terms of the Group Chief Executive
February	· Approval of 2014 incentive performance conditions · Review of directors' base salaries and approval to maintain current salaries from 1 April 2014 · Testing of the performance conditions underpinning the Annual Bonus Plan 2013 and the LTIP cycle 2011-13; approval of the level of directors' awards · Review of Directors' Remuneration Report 2013	· Shareholder engagement update · Update on UK pension plan provider review · Sharesave and Sharebuild participation update
May	· Approval of the terms of the LTIP grant 2014 and directors' associated conditional share awards · Review of Executive Directors' personal goals for 2014	· Corporate governance update
September	· Review of the 2014 LTIP grant and an update on dilution levels · Approval for a supplementary grant of conditional LTIP awards in November 2014 for non-Board employees · Update on the Annual Bonus Plan 2014 and LTIP cycles 2012, 2013 and 2014 · Approval to operate Sharesave and Sharebuild in 2014 · Approval of revised Remuneration Committee terms of reference	· None
December	· Update on the Annual Bonus Plan 2014 and LTIP cycles 2012, 2013 and 2014 · Review of 2015 incentive performance conditions · Review of draft Directors' Remuneration Report 2014 · Update on the supplementary grant of conditional LTIP awards in November 2014 for non-Board employees · Review of outputs of Remuneration Committee Effectiveness Survey 2014 · Review of Committee meeting schedule for 2015	· Corporate governance update

3. TOTAL REMUNERATION 2014: 'SINGLE FIGURE' TABLES (AUDITED)

The tables below set out the directors' total remuneration single figure for the financial year ended 31 December 2014. For comparative purposes, 2013 figures are also provided. The components of the Executive Directors' remuneration are detailed on pages 86 to 89. The fee structure applicable to Non-Executive Directors is detailed on page 97. Non-Executive Directors do not participate in any of the Group's incentive plans.

EXECUTIVE DIRECTORS

	Salary		Taxable benefits[1 2]		Bonus[3]		LTIP		Pension related benefits[6]		Other remuneration[7]		Total	
(£'000)	**2014**	2013	**2014**	2013	**2014**	2013	**2014**[4]	2013[5]	**2014**	2013	**2014**	2013	**2014**	2013
Adrian Brown[8]	**143**	482	**15**	43	**–**	–	**–**	–	**24**	84	**1**	2	**183**	611
Stephen Hester[9]	**864**	–	**57**	–	**939**	–	**–**	–	**258**	–	**–**	–	**2,118**	–
Richard Houghton	**494**	491	**21**	19	**100**	–	**–**	–	**67**	70	**–**	–	**682**	580
Simon Lee[10]	**–**	778	**–**	37	**–**	–	**–**	–	**–**	194	**–**	2	**–**	1,011
Total	**1,501**	1,751	**93**	99	**1,039**	–	**–**	–	**349**	348	**1**	4	**2,983**	2,202

NON-EXECUTIVE DIRECTORS

	Fees		Taxable benefits[1 2]		Total	
(£'000)	**2014**	2013	**2014**	2013	**2014**	2013
Alastair Barbour	**95**	90	**13**	19	**108**	109
Kath Cates[11]	**83**	23	**–**	–	**83**	23
Enrico Cucchiani[12]	**6**	–	**–**	–	**6**	–
Noel Harwerth[13]	**–**	19	**–**	–	**–**	19
Edward Lea[14]	**39**	102	**3**	3	**42**	105
Malcolm Le May[14]	**29**	80	**–**	1	**29**	81
John Maxwell[13]	**–**	16	**–**	2	**–**	18
Hugh Mitchell	**88**	80	**–**	–	**88**	80
Martin Scicluna[15]	**400**	400	**2**	1	**402**	401
Jos Streppel	**78**	68	**1**	1	**79**	69
Johanna Waterous	**88**	70	**2**	–	**90**	70
Total	**906**	948	**21**	27	**927**	975

Notes:

1. Taxable benefits: includes reimbursement in respect of travel and accommodation. Adrian Brown received a car allowance of £6,052 (2013: £19,685). Stephen Hester received a car allowance and the use of a car and driver service which totalled £39,999. Richard Houghton received a car allowance of £16,260 (2013: £16,260). In addition, each of the Executive Directors received medical benefits and Stephen Hester received separate life cover. Alastair Barbour received benefits of £12,941 (2013: £19,209) for taxable travel where relief under HMRC rules is not available.
2. Taxable benefits: The 2014 figures above include an amount in respect of tax payable on the benefits provided in 2014 on behalf of the director. The 2013 figures are restated to present them on a comparative basis (previously, tax had been included based on date paid).
3. Bonus: comprises awards in respect of performance measures relating solely to the financial year shown, in accordance with the plan described on pages 86 to 87. Half of the bonus shown is awarded in Deferred Bonus Shares which vest three years from the date of grant, and are subject to malus adjustment under the Group's Clawback Policy detailed on page 89.
4. LTIP 2014: performance-based awards granted under the 2012-14 LTIP cycle will lapse in full on 11 May 2015. By exception, Richard Houghton's award, which was awarded following his appointment as a director effective 12 June 2012, will lapse in full on 15 June 2015.
5. LTIP 2013: the performance-based awards granted under the 2011-13 LTIP cycle lapsed in full on 7 April 2014.
6. Pension-related benefits: these benefits are detailed on page 86.
7. Other remuneration: includes gains made from RSA's HMRC-approved all-employee share plans, i.e. gains on maturing Sharesave options and Sharebuild matching shares granted during the year (detailed on page 91). These other items in the nature of remuneration are available to all qualifying UK employees and are non-taxable.
8. Adrian Brown resigned from the Board effective 16 April 2014 and his employment ended effective 31 August 2014. The salary shown in the table is the pro-rated amount for the time he was a director, i.e. 1 January – 16 April 2014. Further details are given on page 93.
9. Stephen Hester was appointed as a director effective 5 February 2014 on an annual salary of £950,000. The salary value shown in the table for 2014 is the pro-rated amount based on his appointment date.
10. Simon Lee resigned from the Board and his employment ended on 12 December 2013. The salary value shown in the table for 2013 is the pro-rated amount. Pay in lieu of notice is not included in this table, and was disclosed in last year's Report on page 88, under Payments for Loss of Office.
11. Kath Cates was appointed as a Non-Executive Director effective 1 September 2013.
12. Enrico Cucchiani was appointed as a Non-Executive Director effective 1 December 2014.
13. Noel Harwerth and John Maxwell resigned as Non-Executive Directors with effect from 31 March 2013.
14. Edward Lea and Malcolm Le May resigned as Non-Executive Directors with effect from 8 May 2014.
15. Martin Scicluna was appointed as Chairman on 1 January 2013. He was appointed to the role of Executive Chairman from 13 December 2013 to 4 February 2014. At his request, there was no increase in fee for this period. A £38,533 portion of the above 2014 fees relate to the period when he was Executive Chairman.

4. COMPONENTS OF EXECUTIVE DIRECTORS' REMUNERATION

BASE SALARY

The Committee reviewed the Executive Directors' salaries during 2014, and did so referencing a range of information including market data from two benchmarking peer groups of listed international insurers and FTSE companies of a broadly comparable market capitalisation to RSA, excluding banks and heavy industries. It took into account the average reviews applied elsewhere in the Group, including those for employees subject to collective bargaining agreements, and UK inflation figures.

The Executive Directors' salaries remained unchanged for the 1 April 2014 review, as stated in the table below. The salaries of Stephen Hester and Richard Houghton effective from 1 April 2015 will be unchanged, as also noted on page 96.

Director	Annual base salary effective 1 April 2014	% Change
Stephen Hester	£950,000	0%
Richard Houghton	£494,400	0%

Note:
1. Adrian Brown's salary effective 1 April 2014 also remained unchanged, at £484,500.

EMPLOYMENT BENEFITS

The Executive Directors received a range of employment benefits during 2014, including car and medical benefits, and the value of these is noted in the table on page 85.

PENSION PROVISION (audited)

The Executive Directors' pension benefits for the year were as follows:

- Adrian Brown received a taxable cash allowance of 17.5% of base salary for the period he was employed during 2014.
- Stephen Hester received a taxable cash allowance of 30% of base salary following his appointment effective 5 February 2014.
- Richard Houghton was a member of the Stakeholder Pension Plan until April 2014 and received an employer pension contribution of 9% of base salary and a taxable cash allowance of 5.27% of base salary. He received a taxable cash allowance of 13.18% of base salary from April 2014 onwards. The total taxable cash allowance during the year was £55,385 and the total employer pension contribution was £11,124.

The aggregate value paid by RSA into the Company's stakeholder pension scheme for the Executive Directors in 2014 was £11,124 (2013: £44,172).

ALL-EMPLOYEE SHARE PLANS

Executive Directors were eligible to participate in RSA's all-employee share plans (Sharesave and Sharebuild) during the year. Details of their share interests in these plans to 31 December 2014 are noted in the tables on page 91.

ANNUAL BONUS PLAN (audited)

For 2014 financial year, the Group Chief Executive and Group Chief Financial Officer's Annual Bonus Plan consisted of stretching targets aligned to Group underlying Return on Tangible Equity (ROTE), Group underlying Profit before Tax (PBT), Group Combined Operating Ratio (COR), a Business Review Scorecard and operational objectives specific to their roles which were assessed against a performance scorecard.

The maximum bonus opportunity for the Executive Directors was 160% of salary, of which half of any award would be compulsorily deferred into RSA shares for three years and subject to malus adjustment under the Group's Clawback Policy detailed on page 89.

In determining bonus awards, the Committee considered how goals had been met, ensuring that performance took account of key risk factors.

GROUP CHIEF EXECUTIVE

Financial performance (40% weighting – achieved 13%)

Underlying metrics for bonus purposes excluded net gains, reorganisation costs, transaction costs and one-off losses relating to prior-year issues in Ireland. As shown in the table, financial performance was below the target level for each metric leading to an outcome of 13% against a possible maximum of 40%.

Business Review performance (30% weighting – achieved 25%)

The Business Review Scorecard offered an opportunity of up to 30% of the overall award. The Committee judged performance taking into account capital, expenses and disposal metrics, together with the actions aimed at delivering the business turnaround targets.

Performance under the Business Review Scorecard was assessed to have been in excess of the specific targets.

Substantial outperformance was seen in the disposal programme and good execution of the portfolio exits within the business. The business has been recapitalised ahead of targets. Expenses were reduced ahead of Plan with reduction targets exceeded as a result of additional actions developed. The Committee was of the view that overall a strong platform has been created for the business turnaround.

As a result the Committee assessed an outcome of 25% out of a possible score of 30% in this category.

Personal Element (30% weighting – achieved 30%)

This element focuses on personal performance versus the highest priorities set by the Board for Stephen Hester in 2014, namely efforts driving company recapitalisation, new strategy and operational plans, stakeholder engagement, operational delivery of controllable items and Executive team development.

Although the Company as a whole fell short of its underlying profitability targets for the year, as reflected in the financial element of the bonus, progress was made in a number of areas. Those elements of performance most controllable by management exceeded their planned outcomes – namely current year underwriting profit excluding Ireland (a record), costs (better than plan) and investment income on plan. This was considered a significant achievement. The shortfalls lay primarily in Irish losses and UK prior year reserve strengthening,

Taking all of the above into account the Committee determined that Stephen Hester would receive an award of 30% out of 30% for this element.

As a consequence, Mr Hester was awarded a bonus of 68% of the maximum available opportunity, being 99% of his annual base salary.

Overview of bonus outcomes

The following table summarises the 2014 annual bonus outcome for Stephen Hester.

Bonus 2014 performance measures	Target	Actual	Weighting (% of maximum)	Stephen Hester Award (% of maximum)
Group underlying ROTE	10.8%	9.7%	20%	6%
Group underlying PBT	£270m	£247m	10%	3%
Group COR	99.0%[1]	99.7%[1]	10%	4%
Business Review Scorecard	– *Capital metrics*: IGD coverage ratio ≥1.75 times, ECA coverage ratio ≥1.15 times, S&P credit rating A– stable; – *Group expense ratio:* 16.3%[1]; – *Group expenses:* £2,224m; – *Portfolio actions:* See narrative.	– *Capital metrics:* IGD coverage ratio >2.2 times[2], ECA coverage ratio >1.2 times[2], S&P credit rating A stable; – *Group expense ratio:* 16.0%[1]; – *Group expenses:* £2,082m; – *Portfolio actions:* See narrative.	30%	25%
Personal Scorecard		See narrative	30%	30%
Total (% of maximum)			100%	68%
Total (% of annual base salary)[3]				99%
Bonus receivable[4]				£939,043

Notes:
1. For the 2014 bonus plan, COR and expense ratio were calculated on the basis of both written and earned premiums. The Group has since revised its definition of COR to calculate it on the basis of earned premiums only, and therefore the figures above differ from those on page 25 of this Report.
2. IGD and ECA positions are detailed in the capital disclosure on page 149 to 150.
3. Stephen Hester was appointed as a director effective 5 February 2014. His bonus has been determined by the Committee relative to his gross annual basic salary of £950,000 and pro-rated from this date until 31 December 2014.
4. Half of the bonus shown is awarded in Deferred Bonus Shares. The shares vest three years from the date of grant, and are subject to malus adjustment under the Group's Clawback Policy detailed on page 89.

Group Chief Financial Officer

The Financial, Business Review and Personal Scorecard elements were considered in a corresponding manner for Richard Houghton. In light of Richard Houghton's departure from the Group, announced on 26 February 2015, and the associated terms agreed in accordance with the Group's policy for Executive departures, the Committee determined that the award for Mr Houghton should be £100,000 (13% of maximum being 20% of annual base salary), with half of this award being deferred in shares for three years subject to malus adjustment.

LONG-TERM INCENTIVES – AWARDS VESTING FROM 2012–14 CYCLE (AUDITED)

Conditional long-term incentive awards were made to Executive Directors in the 2012–14 cycle in the form of Performance Shares. Under the LTIP arrangements operated at that time, Executive Directors could also receive Matching Shares for each share deferred through the 2011 annual bonus plan, via both compulsory and voluntary deferral.

The vesting of these awards was contingent on RSA achieving targets for Group underlying Return on Equity (ROE) and relative Total Shareholder Return (TSR), measured over a three-year performance period. The outcome of the 2012–14 cycle has been tested by the Committee and independently verified. As a result, Performance and Matching share awards granted under the 2012–14 cycle will not vest as neither of the performance conditions was achieved. The tables below show the outcome of the performance measures and the resulting level of vesting for Executive Directors' awards:

LTIP performance measures 2012–14	Threshold target: 25% vesting	Maximum target: 100% vesting	Actual performance	Vesting (% of maximum)
Relative TSR[1, 3]	Median: 99.1%	Upper quintile: 119.0%	9.5%	0%
Group underlying ROE[2, 3]	10%	16%	6.6%	0%

	Performance Shares[5]			Compulsory Deferred Matching Shares[5]			Voluntarily Invested Deferred Matching Shares[6]			Total		
LTIP vesting[4]	Granted	Vested	Value	Granted	Vested	Value	Granted	Vested	Value	Granted	Vested	Value
Adrian Brown[7]	256,017	0	£0	20,379	0	£0	72,399	0	£0	348,795	0	£0
Richard Houghton	159,863	0	£0	n/a	n/a	n/a	n/a	n/a	n/a	159,863	0	£0

Notes:
1. Relative TSR target is between median and upper quintile within a peer group of: Aegon, Allianz, Aviva, AXA, Baloise, Generali, Legal & General, Munich Re, QBE, Swiss Re and Zurich.
2. Group underlying ROE target is a three-year average measured over the performance period.
3. A straight-line calculation is applied to determine the portion of awards that vest for performance between the threshold and maximum targets.
4. The table shows that no performance-based awards arising from this cycle will vest. Richard Houghton's award will lapse in full on 15 June 2015.
5. The Performance Shares and Compulsory Deferred Matching Shares were weighted 70% on the ROE performance measure, and 30% on Relative TSR.
6. The Voluntarily Invested Deferred Matching Shares were weighted 100% on the ROE performance measure.
7. Adrian Brown's awards shown above lapsed when his employment ended on 31 August 2014.
8. The Directors' Compulsory Deferred Shares and the Voluntarily Invested Deferred Shares for the 2012–14 cycle are noted in the table on page 92.
9. The number of shares originally granted has been adjusted for the Rights Issue, and subdivision and consolidation of ordinary shares undertaken by the Group in 2014.

LONG-TERM INCENTIVES – AWARDS GRANTED IN 2014 (AUDITED)

Conditional long-term incentive awards were made to the Executive Directors on 19 May 2014 under the Performance Share Plan (PSP), which was approved by shareholders on 9 May 2014. These Performance Share awards will vest in 2017, subject to the satisfaction of the plan's performance conditions based on Group underlying ROTE, relative TSR and a Business Review Scorecard comprising growth in Tangible Net Asset Value per Share (TNAV), cumulative earnings and a range of capital strength metrics.

The targets for the performance measures are shown in the following table. Achievement against the Business Review Scorecard will be evaluated using a performance framework whereby each metric will be reviewed against its target, and judgement in the round used to determine the level of vesting. The specific targets cannot be disclosed prospectively for reason of price sensitivity, particularly regarding the capital metrics. A performance narrative will be given to summarise the level of vesting on the Business Review Scorecard once the performance conditions have been tested.

LTIP performance measures 2014–16	Weighting	Threshold target: 25% vesting	Maximum target: 100% vesting
Relative TSR[1, 3]	⅓	RSA's TSR is equal to the unweighted index of comparators	RSA's TSR outperforms the unweighted index of comparators by at least 7% per annum (22.5% compound over three years) or exceeds the TSR of the highest performing company in the index
Group underlying ROTE[2, 3]	⅓	11%	16%
Business Review Scorecard	⅓	Commercially sensitive	Commercially sensitive

Notes:
1. Relative TSR index of comparators includes: ACE, Admiral, Allianz, Amlin, Aviva, Catlin, Direct Line, Gjensidige Forsikring, Hiscox, Intact, Mapfre, QBE, Topdanmark, Tryg and Zurich.
2. Group underlying ROTE target is a three-year average over 2014–16.
3. A straight-line calculation is applied to determine the portion of awards that vest for performance between the threshold and maximum targets.

The awards granted to each Executive Director are set out in the table below:

	Performance Shares[1, 2]		
Director	Basis of Award	No. of Shares[3]	Face Value[4]
Stephen Hester[5]	300% of salary	585,431	£2,850,000
Richard Houghton	230% of salary	233,581	£1,137,120

Notes:
1. The performance measures are Group underlying ROTE, relative TSR and a Business Review Scorecard (1/3 weighting each).
2. The performance period is three years and ends on 31 December 2016. By exception, the relative TSR metric which will be targeted against a performance period commencing four weeks before the grant date and ending on 31 March 2017; this is to ensure that the measurement period does not begin during a time when shareholders were not in possession of the full information on RSA's performance and strategy.
3. If threshold performance is achieved, 25% of the number of shares shown will vest.
4. Face value of awards are calculated as the maximum number of shares that would vest if all performance measures and targets are met, multiplied by the mid-market closing price of an RSA ordinary share averaged over the five business days preceding the date of grant (19 May 2014), of £4.8682.
5. Stephen Hester was appointed as a director effective 5 February 2014. As disclosed in the previous Directors' Remuneration Report, Mr Hester was granted 300% of salary in conditional performance shares in 2014.

CLAWBACK POLICY

A Clawback Policy was introduced in 2013 regarding variable remuneration and is reviewed annually, as set out in the Remuneration Policy on page 100 to 102.

In summary, for awards issued in 2014 onwards, the Committee may reduce or forfeit awards that have yet to be paid or vest in the case of shares, to delay the payment or vesting date or to amend another form of award or benefit which has yet to be received (malus adjustment).

For cash bonuses awarded for 2015 performance onwards, and long-term incentive awards granted from 2015 onwards, the Committee may also recover sums already paid to Executive Committee members if it considers it appropriate to do so (clawback). This can be applied during a two-year period after receipt (in the case of cash bonuses) or vesting (in the case of long-term incentives).

The circumstances in which malus and clawback may apply are outlined in the table below:

Malus adjustment	Clawback
· Material financial misstatement of results for any financial year or the material financial loss/under-performance of a business unit that could have been reasonably risk-managed	· Material financial loss of a business unit as a result of circumstances that should reasonably have been risk-managed by the individual
· Error or material misstatement leading to an overpayment	· Material error or financial misstatement of results which has resulted in an overpayment
· Employee misconduct, including regulatory or other breaches	· Gross or serious employee misconduct.
· Legitimate concerns regarding an employee's conduct, capability or performance	
· Actions leading to reputational damage	
· Deterioration in the financial health of the Company leading to severe financial constraint	
· Any other situation as the Committee may reasonably determine.	

5. DIRECTORS' SHAREHOLDING (audited)

EXECUTIVE DIRECTORS' REQUIRED SHAREHOLDING 2014

RSA believes it is in shareholders' interests for its executives to hold shares in the Company. Under the guidelines applicable during 2014, executives are expected to retain vested shares and so build up a minimum holding over a five-year period and maintain it thereafter. No shares are to be sold until the holding level is reached, except where required to cover statutory deductions. The required shareholding levels that applied during 2014 are shown below.

Position	% of salary
Group Chief Executive	300%
Other Executive Directors	150%

The number of shares held by the Executive Directors as at 31 December 2014 is shown in the table below. Stephen Hester joined RSA in February 2014 and continues to build up his holding within the allotted five-year period.

Director	Shares[1]	Valuation[2]	% of salary[3]
Adrian Brown[4]	298,469	£1,381,911	285%
Stephen Hester	21,500	£93,525	10%
Richard Houghton	58,861	£256,045	52%

Notes:
1. The shareholding excludes all unvested share awards and those otherwise subject to forfeiture. It includes Voluntarily Invested Deferred Shares related to the legacy Long-term Incentive Plan 2006, and shares acquired through RSA's all-employee plan, Sharebuild.
2. The valuation is against the mid-market closing price of an RSA ordinary share as at 31 December 2014 of £4.35 per share.
3. The gross annual base salary as at 31 December 2014.
4. Adrian Brown resigned from the Board effective 16 April 2014. His shareholding is shown as at that date, and valued using his gross annual base salary and the mid-market closing price of an RSA ordinary share at that date of £4.63 (taking into account the share consolidation).

SHAREHOLDINGS

The interests of Directors in ordinary shares of £1.00 each of the Company were as follows:

Director	Shares held at 1 January 2014[1]	Shares held at 31 December 2014
Executive Directors[2]		
Adrian Brown[3]	211,140	272,087
Stephen Hester[4]	0	21,500
Richard Houghton[5]	41,414	49,419
Non-Executive Directors[2]		
Alastair Barbour	10,089	12,039
Kath Cates	0	4,124
Enrico Cucchiani[6]	0	0
Edward Lea[7]	208,009	248,219
Malcolm Le May[7]	5,314	6,342
Hugh Mitchell	4,862	8,552
Martin Scicluna	9,681	14,303
Jos Streppel	0	4,125
Johanna Waterous	10,407	12,419

Notes:
1. The number of shares held as at 1 January 2014 has been restated to reflect the impact of the 3 for 8 Rights Issue announced on 25 March 2014 and for the subdivision and 5:1 consolidation of ordinary shares of 27.5p each into ordinary shares of £1.00 each which became effective on 12 May 2014.
2. As at 25 February 2015, the interests in ordinary shares of the current Non-Executive Directors, Stephen Hester and Richard Houghton have not changed since 31 December 2014.
3. Adrian Brown resigned from the Board effective 16 April 2014. His share interests are shown as at that date and not 31 December 2014.
4. Stephen Hester was appointed as a director effective 5 February 2014. The table above shows his shareholding on the date of his appointment and not 1 January 2014.
5. Richard Houghton had a beneficial interest as at 31 December 2014 in Voluntarily Invested Deferred Shares held under the LTIP. These are not included in the table above. They are disclosed on page 92.
6. Enrico Cucchiani was appointed as a director effective 1 December 2014. The table above shows his shareholding on the date of his appointment and not 1 January 2014.
7. Edward Lea and Malcolm Le May resigned from the Board on 8 May 2014. Their interests are shown as at 8 May 2014 and not 31 December 2014.

SCHEME INTERESTS HELD

Details of Executive Directors' existing awards in the Group's incentive schemes and all-employee share plans for the financial year are set out below. Full details of all directors' shareholdings and options to subscribe for shares are recorded in the Group's Register of Directors' Interests which is open to inspection by shareholders at the AGM and at the Company's registered office during standard business hours.

Outstanding options

Unexpired options held during 2014 in respect of the ordinary shares of the Company as a result of Sharesave share option schemes are shown below. All options were granted for nil consideration. None of the terms or conditions of any of the existing options over shares of the Group were varied during the year.

Director and Scheme	Number of options at 1 January 2014[1]	Adjustment due to Rights Issue[2]	Options granted during the year	Options vested but unexercised during the year	Options exercised during the year	Market price (pence) on date of exercise[3]	Options lapsed during the year	Number of options at 31 December 2014	Exercise price (pence)	Dates exercisable from	Dates exercisable to
Adrian Brown[4]											
Sharesave	1,019	125	–	–	–	–	1,144	0	521.10	01.12.13	31.05.14
Sharesave	1,218	149	–	–	–	–	1,367	0	432.00	01.12.14	31.05.15
Sharesave	815	100	–	–	–	–	915	0	445.35	01.12.15	31.05.16

Notes:
1. The number of options held as at 1 January 2014 has been restated to reflect the impact of the subdivision and 5:1 consolidation of ordinary shares of 27.5p each into ordinary shares of £1.00 each which became effective on 12 May 2014.
2. Adjustments made as a result of the 3 for 8 Rights Issue announced on 25 March 2014.
3. The aggregate gross gain made by directors during the year on the exercise of share options amounted to £0.
4. Adrian Brown resigned from the Board effective 16 April 2014 and his employment ended on 31 August 2014.
5. Sharesave is a voluntary HMRC-approved SAYE scheme under which options are not subject to performance conditions, but service conditions apply.
6. The official closing middle market price at its highest during the year was £4.978 per share and at its lowest was £4.0568 per share, taking into account the share consolidation. On the last dealing day of the year it was £4.35 per share.

Sharebuild

The Directors' interests in Sharebuild shares during 2014 were as follows:

	Sharebuild Shares held at 1 January 2014[1]	Partnership Shares acquired during the year	Matching Shares awarded during the year	Dividend Shares acquired during the year	Sharebuild Shares held at 31 December 2014
Adrian Brown[2]	2,352	232	232	0	0

Notes:
1. The number of share awards held as at 1 January 2014 has been restated to reflect the impact of the subdivision and 5:1 consolidation of ordinary shares of 27.5p each into ordinary shares of £1.00 each which became effective on 12 May 2014. The number of shares shown above does not include the shares acquired as a result of taking up rights in the Rights Issue as these shares were transferred to the director and are included in the Shareholdings table on page 90.
2. Adrian Brown resigned from the Board effective 16 April 2014 and his employment ended on 31 August 2014, and he received his Partnership Shares, vested Matching Shares and Dividend Shares as at that date in accordance with the rules of the Sharebuild Plan. A total of 818 unvested Matching Shares in the Scheme were forfeited upon his resignation.
3. Sharebuild is an HMRC-approved Share Incentive Plan. Shares are not subject to performance conditions, but the Matching Shares are subject to service conditions.

Long-term Incentive Plan 2006 (LTIP)

The directors' interests in the LTIP were as follows:

	Share awards held at 1 January 2014[1]	Adjustment due to Rights Issue[2]	Share awards granted during the year[3]	Share awards vested during the year[4,5]	Share awards lapsed during the year	Share awards held at 31 December 2014
Adrian Brown						
Voluntarily Invested Deferred Shares[6]	23,894	8,959	0	32,853	0	0
Compulsory Deferred Shares[7]	41,646	5,106	0	20,868	25,884	0
Voluntarily Invested Deferred Matching Shares[8]	105,165	54,590	0	0	159,755	0
Compulsory Deferred Matching Shares[9]	92,588	11,351	0	0	103,939	0
Performance Shares[10]	446,252	54,709	0	0	500,961	0
Richard Houghton						
Voluntarily Invested Deferred Shares[6]	6,867	2,575	0	0	0	9,442
Compulsory Deferred Shares[7]	14,448	1,772	0	0	0	16,220
Voluntarily Invested Deferred Matching Shares[8]	28,613	15,553	0	0	0	44,166
Compulsory Deferred Matching Shares[9]	28,897	3,543	0	0	0	32,440
Performance Shares[10]	269,609	33,053	0	0	0	302,662

Notes:
1. The number of share awards held as at 1 January 2014 has been restated to reflect the impact of the subdivision and 5:1 consolidation of ordinary shares of 27.5p each into ordinary shares of £1.00 each which became effective on 12 May 2014.
2. Includes the impact of adjustments made as a result of the 3 for 8 Rights Issue announced on 25 March 2014.
3. No long-term incentive plan interests were granted under the LTIP during 2014.
4. In respect of the awards made to Adrian Brown in 2011 which vested in 2014, the market price on the date of grant of awards (7 April 2011) was £5.952, the market price on date of vesting of awards (7 April 2014) was £4.6975, taking into account the share consolidation.
5. The aggregate value of share awards vested for directors during the year under the Long-term Incentive Plan amounted to £98,027. Voluntarily Invested Deferred Shares, which are shown in the table above, are not included in this value.
6. Voluntarily Invested Deferred Shares were purchased by Capita Trustees Limited on behalf of each participant using part of the net annual bonus paid to them and are held in trust for three years. These deferred shares are not at risk of forfeiture and may be withdrawn from the Trust at any time but any associated Matching Shares lapse if this occurs.
7. Compulsory Deferred Shares have a service condition of three years from date of grant.
8. The performance condition for Voluntarily Invested Deferred Matching Share grants made in 2011, 2012 and 2013 was Group underlying ROE (100% weighting).
9. The performance conditions for Compulsory Deferred Matching Share grants made in 2011, 2012 and 2013 were Group underlying ROE (70% weighting) and relative TSR (30% weighting).
10. The performance conditions for Performance Share grants made in 2011, 2012 and 2013 were Group underlying ROE (70% weighting) and relative TSR (30% weighting).
11. The date by which performance and other conditions for LTIP awards must be met is as follows: 2011 awards by 31 December 2013, 2012 awards by 31 December 2014 and 2013 awards by 31 December 2015.
12. No other directors of the Company held long-term incentive scheme interests in the LTIP Plan during 2014.

Performance Share Plan 2014 (PSP)

The new long-term incentive plan, the PSP, was approved by shareholders at the Company's 2014 AGM. The directors' interests in this plan were as follows:

	Share awards held at 1 January 2014	Share awards granted during the year[1]	Share awards vested during the year[2]	Share awards lapsed during the year	Share awards held at 31 December 2014
Stephen Hester					
Performance Shares[3]	0	585,431	0	0	585,431
Richard Houghton					
Performance Shares[3]	0	233,581	0	0	233,581

Notes:
1. The Company granted conditional awards over ordinary shares under the PSP at nil cost. The market price of ordinary shares on 19 May 2014, the date on which PSP interests were granted during the year, was £4.8682.
2. The aggregate value of share awards vested for directors during the year under the PSP amounted to £0.
3. The performance conditions for Performance Shares granted in 2014 are Group underlying ROTE (1/3 weighting), relative TSR (1/3 weighting) and Business Review Scorecard (1/3 weighting).
4. The date by which performance and other conditions for PSP awards granted in 2014 must be met is 31 December 2016 (except the relative TSR condition, the performance period for which began four weeks prior to the grant date and will end on 31 March 2017 as disclosed on page 89).
5. No other directors of the Company held long-term incentive scheme interests in the PSP Plan during the year.

6. PAYMENTS TO DIRECTORS FOR LOSS OF OFFICE (audited)

Adrian Brown, Chief Executive UK and Western Europe, resigned from the Board effective 16 April 2014 and his employment ended on 31 August 2014. He continued to receive his contractual salary and benefits for the time he remained an employee up to 31 August 2014 and was then treated in line with the leaver treatment in the Group's Remuneration Policy.

Mr Brown is not entitled to receive a bonus in respect of the 2014 financial year, and received no other ex-gratia awards.

A total of 473,609 shares granted to Mr Brown under the 2006 Long-term Incentive Plan lapsed on his employment termination date. This included all outstanding LTIP awards. Mr Brown had no awards under the 2014 Performance Share Plan. Mr Brown's participation in RSA's voluntary all-employee share plans were treated in accordance with the rules of these plans for employees who resign, and a total of 818 Sharebuild matching shares and 2,282 Sharesave options lapsed.

Richard Houghton, Group Chief Financial Officer, will step down from the Board on 7 May 2015 and leave the Group later in the year once a successor has been appointed.

He will continue to receive his contractual salary and benefits for so long as he remains an employee, after which he will be treated in line with the Leaver Treatment outlined in the Group's Remuneration Policy.

No loss of office payment will be made to Mr Houghton.

Mr Houghton has a 12 month contractual notice period which will commence on 26 February 2015 and expire at midnight on 25 February 2016, at the latest. Whilst an employee Mr Houghton will receive his contractual salary of £41,200 per month, a pension allowance of £5,430 per month and benefits which include a car allowance of £1,355 per month as well as PMI and life insurance.

Following his employment ending, any unexpired period of notice will be paid in lieu at £48,319 per month, covering both salary and benefits. Mr Houghton's pay in lieu of notice will be subject to mitigation or partial mitigation, should he take up a new role before 25 February 2016.

In accordance with the Remuneration Policy, the Committee has agreed good leaver status for Richard Houghton. Half of his bonus award for 2014 (detailed on page 87) will be deferred in shares for three years and subject to malus adjustment. He will not be eligible to receive a bonus for the 2015 performance year.

Mr Houghton's unvested 612,849 Performance and Matching share awards in the Long-term Incentive Plan 2006 and Performance Share Plan 2014 will vest in line with the normal vesting timetable. Time pro-ration will be applied, such that based on his employment ending effective 25 February 2016, a maximum of 510,499 awards can vest. Additional pro-rating will be applied if the performance conditions attached to these awards are not met in full, or if his employment ends at an earlier date.

In addition, his unvested 16,220 Compulsory Deferred Shares awarded as part of his bonus for 2012 will vest in line with their normal vesting timetable. These were valued at £73,039 based on a share price of £4.503 as at 25 February 2015. He will retain his 9,442 Voluntarily Invested Deferred Shares that were purchased using part of his net bonus awards for 2012, in accordance with the Plan rules. These were valued at £42,517 based on a share price of £4.503. Mr Houghton will not receive an LTIP award in 2015.

7. PAYMENTS TO FORMER DIRECTORS (audited)

There were no payments made to former directors during 2014, other than those disclosed in the Payments for Loss of Office section.

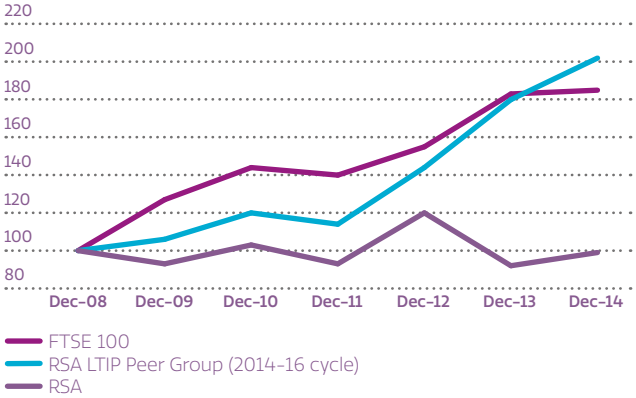
8. HISTORICAL TSR PERFORMANCE AND EXECUTIVE REMUNERATION

The graph shows the TSR of the Group with reference to the FTSE 100 Index and the relative TSR peer group used as an LTIP performance measure for the 2014–16 cycle, the constituents of which are noted on page 88.

The FTSE 100 Index is included as it comprises the 100 most highly capitalised companies in the UK market, of which RSA was a member in 2014.

RSA's TSR performance relative to the indices is shown over the six years from 31 December 2008 to 31 December 2014. The graph reflects the change in value of ordinary shares in a company over time, as represented by a hypothetical £100 holding in the shares. Any distribution of dividends is included. Data was provided by Datastream.

VALUE OF HYPOTHETICAL £100 HOLDING



The table below shows the total remuneration for the incumbents appointed as the most senior Executive Director in the Group over the past six years. The percentages show the proportion of bonuses and LTIPs that were received. Bonuses include both cash and deferred shares components.

	Director	Single figure of total remuneration (£'000)	Annual bonus award rates (% of maximum)	LTIP vesting rates (% of maximum)
2014	Stephen Hester[1]	2,118	68%	n/a
	Martin Scicluna[2]	39	n/a	n/a
2013	Martin Scicluna[2]	21	n/a	n/a
	Simon Lee[3]	1,011	0%	0%
2012	Simon Lee	2,164	50%	34%
2011	Simon Lee[4]	311	59%	34%
	Andy Haste[5]	2,488	58%	31%
2010	Andy Haste	4,024	73%	66%
2009	Andy Haste	4,451	89%	100%

Notes:
1. Stephen Hester was appointed Group Chief Executive effective 5 February 2014. The single figure of total remuneration for 2014 above is pro-rated for his time in the position. He did not have any long-term incentives in the 2012-14 cycle.
2. Martin Scicluna was appointed Executive Chairman effective 13 December 2013, until 4 February 2014. The single figures of total remuneration for 2013 and 2014 above are pro-rated for his time in the position.
3. Simon Lee resigned as Group Chief Executive and his employment ended on 12 December 2013. He did not receive a bonus in respect of the 2013 financial year, and his awards in the 2011–13 LTIP cycle lapsed on that date.
4. Simon Lee became the Group Chief Executive effective 1 November 2011. The single figure of total remuneration above is pro-rated for his time in the position.
5. Andy Haste resigned as Group Chief Executive effective 31 October 2011 and his employment ended 31 December 2011. The single figure of total remuneration above is pro-rated for his time in the position.

9. PERCENTAGE CHANGE IN REMUNERATION

The table below sets out the percentage change in salary, benefits and bonus for the individual undertaking the most senior Executive Director role in the Company compared with UK employees on average between 2013 and 2014. The UK population was selected for this comparison because pay changes within RSA vary significantly, according to local market factors. The Group Chief Executive's role has a Group-wide remit, but is located in the UK.

The figures for the most senior Executive Director include the different jobholders during the period. Stephen Hester was appointed Group Chief Executive in February 2014 and received no salary increase in the year. No bonus was awarded to the Group Chief Executive in respect of 2013, so a percentage change between 2013 and 2014 is not calculable.

	Salary and Fees	Taxable benefits	Bonus
All employees	1.9%	1.9%	-6.0%
Most senior Executive Director[1, 2]	13%	56%	n/a

Notes:
1. The calculation for 2014 includes Stephen Hester from the date of his appointment as Group Chief Executive (5 February 2014) and Martin Scicluna for the period he was Executive Chairman (1 January to 4 February 2014).
2. The calculation for 2013 includes Martin Scicluna for the period he was Executive Chairman (13 to 31 December 2013), and Simon Lee for the period he was Group Chief Executive (1 January to 12 December 2013).

10. RELATIVE IMPORTANCE OF SPEND ON PAY

The table below shows the all-employee pay spend and returns to shareholders by way of dividends for 2014. Figures from 2013 are provided for comparison. The employee pay data covers the Group's employees globally, and therefore includes the impact of exchange rate changes. Levels of inflation vary across the different countries in which the Group operates and, therefore, salary changes will be reflective of local market conditions.

(£m)	2013	2014	% difference from prior year
Total Spend on Employee Pay[1]	1,215	1,101	-9.4%
Total Distributions to Shareholders[2]	232	9	-96.1%

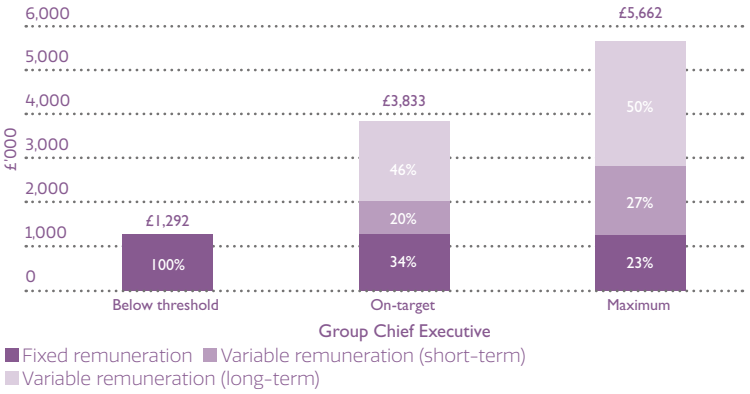
Notes:
1. Includes salaries, social security costs, pension costs and share-based payments as shown in the notes to the Financial Statements on page 161.
2. Includes the figures as shown in the notes to the Financial Statements on page 165.

11. IMPLEMENTATION OF REMUNERATION POLICY IN 2015

This section outlines decisions taken by the Committee in respect of the 2015 financial year, and how the Committee intends to implement the Directors' Remuneration Policy during 2015.

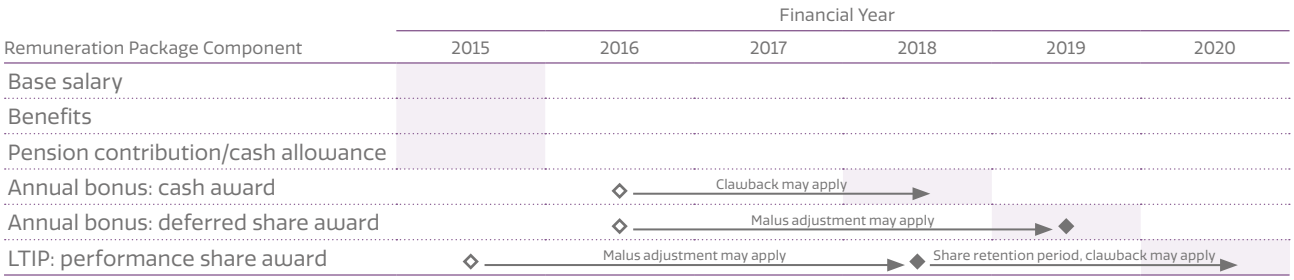
RSA has a pay-for-performance culture, whereby remuneration is closely linked to the performance of both the business and the individual. The Committee's aim is that superior levels of remuneration will only be paid in return for delivering superior levels of performance. The chart below shows how much the Group Chief Executive could earn for the 2015 financial year based on the application of the Remuneration Policy (detailed on pages 99 to 106). His remuneration potential changes according to varying levels of performance.

ILLUSTRATIONS OF THE APPLICATION OF THE REMUNERATION POLICY



Notes:
1. The 'below threshold' scenario shows the minimum remuneration receivable. It includes the value of annual base salary and pension as at 1 January 2015, and the value of benefits based on the single total figure of remuneration for 2014. No bonus is awarded and no LTIP vesting occurs.
2. The 'on-target' scenario shows the remuneration receivable with a bonus award at half of the maximum opportunity (i.e. 80% of salary) and LTIP vesting at 62.5% (i.e. half-way between threshold (25% vesting) and maximum (100% vesting)). The LTIP maximum award level is taken to be 300% of salary, which reflects Stephen Hester's award for the 2015 grant.
3. The 'maximum' scenario shows the remuneration receivable with both the Annual Bonus Plan and the LTIP paying out in full (i.e. 160% of salary and 300% of salary, respectively).

The remuneration structure is intended to promote the long-term interests of the Company and its shareholders. The table below shows when each component of the Executive Directors' remuneration package (as noted in the charts above) would be delivered to them once any performance conditions or other restrictions have ended (as noted by the shading). These each relate to the 2015 financial year and, in the case of the LTIP, for awards vesting in 2018.



◇ Year of cash bonus award, or share award granting ◆ Year of share award vesting
Year when any restrictions or clawback provisions have ended

BASE SALARY, BENEFITS AND PENSION

The Committee reviewed the Group Chief Executive's salary and has determined that no increase will apply from 1 April 2015, as shown in the table below. In respect of benefits and pension, the Policy will continue to be implemented the same way as it was at the end of 2014.

Director	Annual base salary effective 1 April 2015	% Change
Stephen Hester	£950,000	0%

Note:
1. Richard Houghton's salary was reviewed and will also remain unchanged at £494,400 effective 1 April 2015.

HOW WILL INCENTIVES BE ALIGNED TO THE BUSINESS STRATEGY IN 2015?

The table below shows how the business strategy, and the Key Performance Indicators which underpin it, are reflected in the Annual Bonus Plan and long-term incentive performance measures for Executive Directors in 2015:

Strategic Priorities:	Key Performance Indicators	Annual Bonus Plan 2015	Long-term incentive cycle 2015-17
Business Review: - Strategic Focus, - Capital and Balance Sheet Strength, - Performance Improvement	Capital metrics: TNAV, IGD, ECA	*Business Review Scorecard:* Capital metrics including TNAV:NWP, Management actions including controllable expenses	*Business Review Scorecard:* Capital metrics including TNAV:NWP, Controllable expenses, Cumulative earnings, Growth in TNAV per share
Profitability	Group underlying PBT, Group COR	Group underlying PBT, Group COR	Cumulative earnings
Shareholder Value	Group underlying ROTE	Group underlying ROTE	Group underlying ROTE (3-year average), Relative TSR

ANNUAL BONUS PLAN 2015

As noted in the Committee Chairman's letter on pages 80 to 81, the Annual Bonus Plan will follow a similar design to 2014. Its performance measures are aligned with the core priorities for focus in 2015. The Group Chief Executive will be expected to deliver against stretching targets which are geared towards making continued performance improvement.

The Business Review Scorecard component has been strengthened taking into account the progress made in 2014, and includes capital strength metrics and management actions required to deliver the turnaround. An additional capital metric, the ratio of Tangible Net Asset Value to Net Written Premium (TNAV:NWP), will be added to the Scorecard as a measure of capital strength and the organisation's sustainability.

The Personal Scorecard consists of 'SMART' objectives, which are aligned to the areas of: financials, strategy, risk management, customer and people.

The bonus opportunity remains unchanged at 80% of salary for on-target achievement, rising to a maximum of 160% of salary. Threshold performance represents 16% of salary (i.e. 10% of the maximum opportunity). Half of the total bonus will be awarded in cash where clawback can apply, the balance is deferred into shares for a three-year period with malus adjustment.

The Committee will assess performance for 2015 once the financial year has ended. All of the bonus targets are considered to be commercially sensitive because they signal the Group's forward plan for the year, and therefore they are not provided in this document. Disclosure will be provided in the 2015 Directors' Remuneration Report, to the extent that the targets do not remain commercially sensitive.

The table below sets out the structure of the Group Chief Executive's bonus plan for 2015.

Bonus performance measures	Weighting (% of bonus)	Maximum opportunity (% of salary)
Group underlying Return on Tangible Equity (ROTE)	20%	32%
Group underlying Profit before Tax (PBT)	10%	16%
Group COR	10%	16%
Business Review Scorecard	30%	48%
Personal Scorecard	30%	48%
Totals	100%	160%

LONG-TERM INCENTIVE PLAN 2015-17

A new long-term incentive plan, called the RSA Performance Share Plan (PSP), was approved by shareholders at the AGM on 9 May 2014. The plan directly supports the building of shareholder value by targeting Group underlying Return on Tangible Equity (ROTE), relative Total Shareholder Return (TSR) and a Business Review Scorecard which comprises: growth in Tangible Net Asset Value per Share (TNAV), cumulative earnings, controllable expenses and a range of capital strength metrics including the ratio of TNAV:NWP.

For the 2015 grant, all metrics will be assessed against a performance period of 1 January 2015 to 31 December 2017.

Group underlying ROTE is defined in the Key Performance Indicator section on page 25. It will be measured on a simple average basis over the three-year performance period, using a target range of 11-16%.

The Business Review Scorecard will be strengthened taking into account progress made in 2014, and include additionally TNAV:NWP and controllable expense targets. Achievement will be evaluated using a performance framework whereby each metric will be reviewed against its target, together with any other aspects connected to the business turnaround and judgement in the round used by the Committee to determine the level of vesting. The specific targets cannot be disclosed prospectively for reason of price sensitivity. A performance narrative will be given to summarise the level of vesting on the Business Review Scorecard once the performance conditions have been tested.

In recognition of his criticality to the transformation of the Company, Stephen Hester's maximum LTIP opportunity in the 2015 grant will, by exception, be 300% of salary at maximum vesting. His future LTIP grants will made at no more than 230% of salary, which is the Group's usual level of award for Executive Directors. Executive Directors must retain all vested shares arising from this incentive plan for two years post-vesting (except those sold to cover statutory deductions), and they are subject to the Group's Clawback Policy. The table below summarises the LTIP's structure.

LTIP performance measures 2015–17	Weighting	Threshold target: 25% vesting	Maximum target: 100% vesting
Relative TSR[1]	⅓	RSA's TSR is equal to the unweighted index of comparators	RSA's TSR outperforms the unweighted index of comparators by at least 7% per annum (22.5% compound over three years) or exceeds the TSR of the highest performing company in the index
Group underlying ROTE[2]	⅓	11%	16%
Business Review Scorecard	⅓	Commercially sensitive	Commercially sensitive

Notes:
1. The TSR index of comparators for this cycle includes: ACE, Admiral, Allianz, Amlin, Aviva, Catlin, Direct Line, Gjensidige Forsikring, Hiscox, Intact, Mapfre, QBE, Topdanmark, Tryg and Zurich. A straight-line calculation is applied to determine the portion of awards that vest for performance between the threshold and maximum targets.
2. Group underlying ROTE will be calculated on a three-year average basis. A straight-line calculation is applied to determine the portion of awards that vest for performance between threshold and on-target, and between on-target and maximum. The average required for on-target vesting (62.5% vesting) is less than the mid-point of the 11-16% range and is considered commercially sensitive because it is set in line with, and therefore signals, the Group's forward plan for the period. Disclosure will be provided retrospectively following the end of the performance period.

EXECUTIVE SHAREHOLDING REQUIREMENT

The Group Chief Executive's shareholding requirement is maintained at 300% of salary. The requirement for other Executive Directors remains at 150%.

NON-EXECUTIVE DIRECTORS' FEES

Under RSA's Articles, the Non-Executive Directors' remuneration is determined by the Board, within limits set by shareholders. (The biographies of the Non-Executive Directors are contained on pages 50 to 51). The only exception is in respect of the Chairman, whose terms fall within the remit of the Group Remuneration Committee. The Chairman and Board (minus the Non-Executive Directors) discharges its accountability for setting and managing Non-Executives Directors' remuneration; it will do this when their contractual terms or fee structure are under consideration, which is typically once a year, as noted on pages 104 to 105.

The table below shows the Non-Executive Director fee structure. The Chairman receives a fee of £400,000 per annum which, under the terms of his appointment is not scheduled to be reviewed until January 2016. The Company reviewed the Non-Executive Directors' fees during 2014 in accordance with the Remuneration Policy, and did so referencing a range of information including market data on fees taken from the same peer groups used to benchmark the Executive Directors' salaries, UK inflation figures and the average reviews applied elsewhere in the Group. The fees effective from 1 July 2013 will continue to apply in 2015.

Fee structure	From 1 July 2013
Base fee	£60,000
Additional fee for chairing committees:	
Group Audit Committee	£20,000
Group Remuneration Committee	£20,000
Group Investment Committee	£12,500
Board Risk Committee	£20,000
Additional fee for Senior Independent Director	£20,000
Additional committee fee[1]	£5,000

Note:
1. A fee of £5,000 applies for each committee a Non-Executive Director is a member of other than as Committee Chairman.

12. STATEMENT OF VOTING AT GENERAL MEETING

The following voting was recorded at the AGM on 9 May 2014 regarding the resolutions to approve the Directors' Remuneration Policy and the Annual Report on Remuneration:

Resolution	Votes For	Votes Against	Total Votes Cast	Votes Witheld[1]
To approve the Directors' Remuneration Policy				
Number of votes	3,309,027,861	106,612,562	3,415,640,423	100,893,815
% of votes cast	96.88%	3.12%	100%	–
To approve the Directors' Remuneration Report				
Number of votes	3,502,199,226	12,403,512	3,514,602,738	2,000,250
% of votes cast	99.65%	0.35%	100%	–
To approve the 2014 RSA Performance Share Plan				
Number of votes	3,290,659,268	125,166,169	3,415,825,437	100,775,052
% of votes cast	96.34%	3.66%	100%	–

Note:
1. Votes withheld are not included in the calculation as a vote withheld is not a vote in law.

13. DILUTION

RSA monitors its dilution levels on a regular basis to ensure that they remain within the headroom limits set by the Investment Association (IA). As at 31 December 2014, the dilution levels were as follows:

Limit	RSA dilution %
10% over 10 years for all share schemes	4.70%
5% over 10 years for discretionary schemes, including long-term incentives	2.98%

14. EXTERNAL DIRECTORSHIPS

Stephen Hester and Richard Houghton do not hold outside directorships of FTSE 100 (or any other listed) companies but would be allowed to have one such appointment, subject to the approval of the Group Nomination and Governance Committee. In accordance with the Remuneration Policy, they would be permitted to retain any fees or expenses arising from such an appointment.

15. DIRECTORS' CONTRACTS

The Executive Directors' service agreements became effective on the following dates:

Executive Director	Effective date
Stephen Hester	5 February 2014
Richard Houghton	12 June 2012

The table below shows when the Non-Executive Directors' appointments became effective and when their terms will expire.

Non-Executive Director	Date of initial appointment	Expiry date of current term
Alastair Barbour	10 October 2011	10 October 2017
Kath Cates	1 September 2013	1 September 2016
Enrico Cucchiani	1 December 2014	1 December 2017
Hugh Mitchell	26 September 2012	26 September 2015
Martin Scicluna	1 January 2013	1 January 2016
Jos Streppel	3 October 2011	3 October 2017
Johanna Waterous	20 May 2008	20 May 2017

HUGH S MITCHELL
Non-Executive Director and Chairman of Group Remuneration Committee
25 February 2015

Appendix – Summary of Remuneration Policy

INTRODUCTION

The Remuneration Policy was approved by shareholders on 9 May 2014, and was effective from this date. No changes to the Policy are proposed this year.

The Policy covers how decisions on directors' remuneration will be made at RSA, and the remuneration philosophy and strategy which underpin these decisions.

For ease of reference, the elements of the Policy referenced in Committee activity during 2014 are re-presented on the following pages 99 to 106, including the policy tables and information on directors' contractual terms. The full Policy Report is contained in the 2013 Annual Report and Accounts (pages 71 to 79), which is available at www.rsagroup.com in the Investor Relations section.

RSA'S REMUNERATION PHILOSOPHY AND STRATEGY

RSA's remuneration philosophy and strategy are directly informed by the business strategy, which is set out in the Strategic Report on pages 2 to 47 of this Report.

The remuneration principles the Committee follows are:

- Competitive remuneration packages are offered in order to attract, retain and reward the levels of high calibre talent which are essential to RSA's success in today's competitive global insurance market
- Each component of the total remuneration package is simple and transparent, so as to be effective and understood by executives, shareholders and regulators
- A significant proportion of the overall remuneration package takes the form of variable pay, giving focus to stretching short and long-term objectives which directly support the achievement of strategic priorities and are aligned to shareholders' interests
- Executive Directors and other executives are required to hold a significant number of shares in the Company; they are encouraged to act in shareholders' best interests by having a personal investment in RSA
- The remuneration framework is reviewed regularly to ensure that it continues to appropriately reward executives, while protecting shareholders' interests and complying with principles of good risk management and reward governance.

The tables on the following pages describe how these remuneration principles are applied in practice.

RSA'S REMUNERATION POLICY FOR EXECUTIVE DIRECTORS

Purpose and Strategic Link	Policy for 2014 onwards
Base salary (fixed remuneration) Salaries are aligned to market competitive levels. This is to attract and retain high calibre executives, essential for ensuring RSA's ongoing success.	· Reviewed annually with consideration of factors including: market positioning, internal pay relativities, levels of pay for other RSA employees, inflation, affordability, job scale and content, individual's experience and expertise. Only annual base salary is pensionable. An existing Executive Director's salary may be increased outside of the normal review cycle for material role changes. · Benchmarked referencing competitive practice within two peer groups of listed international insurers and FTSE listed companies of broadly comparable market capitalisation to RSA, excluding banks and 'heavy' industries. · Committee can change the constituents of the benchmark peer group or the basis upon which market information is obtained at its discretion to ensure that the data remains robust and relevant.
Note to table: Policy is consistent for other UK-based managers.	
Benefits (fixed remuneration) Employment benefits are provided to support the executive and form part of a market competitive package.	· Directors receive a variety of benefits, some of which are delivered as taxable cash-in-lieu allowances. Benefits cover the areas of: health and well-being, leave of absence, car and business travel, sickness benefit, insurances, professional subscriptions, external advice and employee discounts on certain insurance products. Home to work travel may be covered where appropriate. Tax changes are not compensated. · Assistance would be available under RSA's relocation policy or global mobility policy should this be required. This may include tax equalisation in the event an executive is subsequently appointed to the Board as an expatriate, although the Committee would review if this was necessary long-term. · UK-based Executive Directors can participate in RSA's flexible benefits programme and acquire shares through voluntary HMRC-approved share plans (Sharesave and Sharebuild). They can also claim expenses according to RSA's business and travel policies. · Benefits are determined with reference to market practice within the same benchmark peer groups referenced above. The Committee can also source information from bespoke benefits surveys to aid decision-making. · Committee can amend any benefit or introduce new ones to ensure the remuneration package remains market competitive or to respond to regulatory, legal or best practice changes. Internal appointees to the Board may retain any legacy benefits they receive, at the Committee's discretion, or a buy-out may be made depending on the benefit type and circumstance.
Note to table: Policy is consistent for other UK-based managers and most other UK-based employees.	
Pension (fixed remuneration) Pension benefit forms a part of a market competitive package and enables executives to save for retirement.	· Non-contributory pension plan membership or a full/partial cash allowance, where the Director is unable to join the Company's pension plans. The RSA defined benefit pension plan is closed to all new entrants. · Pension cash allowances are paid monthly and are subject to statutory deductions. · Pension cash allowances are set referencing practice within the benchmark peer groups and specialist survey data may also be obtained. The Committee has regard to the market median allowance data. · Committee can adjust the employer pension contribution or cash allowance levels to ensure these remain appropriate and market competitive. It can also agree changes to the terms of the Directors' pension plan(s), as appropriate.
Note to table: Policy is consistent for other UK-based managers.	
Annual Bonus Plan (variable remuneration) Supports RSA's short-term objectives. Targets are directly linked to the operational plan and reflect RSA's priority to create shareholder value through sustained growth and profitability, based on its risk profiles. Deferral into shares creates shareholder alignment.	· Overall bonus opportunity is set at a level to be market competitive. Awards are calculated against stretching annual financial and non-financial targets, as well as the performance of the individual executive. Only superior performance will result in a bonus award which is above target. · Fifty per cent of the bonus will be awarded in cash and the remainder will be deferred into a share award for a period of three years. Dividends or equivalents accrue on the deferred shares, and are awarded at the end of the deferral period. The deferred bonus shares are granted under the rules of the LTIP as a conditional award. · Under RSA's Clawback Policy, cash and deferred share awards arising from the Annual Bonus Plan can be reduced or forfeited prior to receipt under a range of circumstances and other sanctions can apply. The policy is noted in detail on page 89. The Committee reviews the policy annually and may amend or update it, as required. · The Executive Directors' maximum bonus opportunity is set having regard to the market median bonus opportunity of its benchmark peer groups. · Committee can exercise discretion to change the bonus measures, how they are weighted, calculated and targeted. It can also change the Directors' bonus awards (both upwards and downwards) once the measures have been tested, provided this is appropriate and in shareholders' interests. The Committee can make such amendments as are necessary to respond to regulatory, legal or accounting requirements. Shareholders will be notified if this has been carried out by disclosure in the relevant Directors' Remuneration Report.
Note to table: All permanent UK-based employees are eligible to receive a bonus award, but share deferral is only operated for senior leaders at RSA.	

Opportunity and performance conditions

- Performance conditions do not apply, but business and individual performance may be considered when conducting the review process. Although salaries are reviewed annually, there is no automatic right for any Director to receive a salary increase.
- Other than exceptional circumstances such as a role change, salary increases will not exceed the level of increases applied to other RSA employees.
- The Executive Directors' salaries effective 1 April 2015 are noted on page 96.

- Performance conditions do not apply.
- Benefits are valued and determined with reference to the benchmarking peer groups and other surveys reviewed by the Remuneration Committee. Details of the benefits received by the Executive Directors for 2014 are provided on pages 85 to 86.

- Performance conditions do not apply.
- No Executive Director will receive a pension benefit in excess of 30% of salary.
- The Executive Directors' pension benefits for 2014 are detailed on pages 85 to 86.

- Normal bonus opportunity is 16% of salary at threshold, rising to 80% of salary for on-target performance and 160% of salary at maximum. Additional bonus headroom of up to a further 40% of salary may be available, at the Committee's discretion, to recognise highly exceptional circumstances. Full disclosure will be given if an increased bonus opportunity is applied.
- Performance is measured over one financial year, according to a range of metrics, some of which can be assessed on a scorecard basis, typically including: growth in earnings and profitability, underwriting performance, risk management, expense ratio and cost savings, capital strength, balance sheet strength, customer and employee engagement, and objectives which are personal to the executive. All measures operate independently. Around 70% of the Annual Bonus Plan is weighted according to financial metrics. The performance conditions and targets which were used to inform the 2014 bonus awards are detailed on pages 86 to 87.
- Group Executives are targeted against performance of the entire Group. Executive Directors who have a regional accountability will be targeted against the performance of both the Group and their business areas.
- Targets are set with reference to the Group's operational plan.
- No additional performance conditions apply to the deferred bonus shares once they are granted.

RSA'S REMUNERATION POLICY FOR EXECUTIVE DIRECTORS – CONTINUED

Purpose and Strategic Link	Policy for 2014 onwards
Long-term Incentive Plan (LTIP) (variable remuneration) Supports RSA's long-term strategy. Targets reflect RSA's priority to create shareholder value through sustained earnings and share price growth.	· LTIP grants are made annually to a range of senior employees across the Group. For Executive Directors, awards are made in the form of performance shares which vest subject to performance conditions. The LTIP is also used as a vehicle for granting restricted shares which, for an Executive Director would only be used to satisfy a buy-out upon appointment and shares awarded through compulsory bonus deferral. · Performance conditions are reviewed annually. Dividends or equivalents accrue during the performance period and are added to the shares that vest. · A two-year retention period will apply to the Executive Directors' vested shares prohibiting their sale (excluding any sold to satisfy statutory deductions). This policy will cover performance-based awards granted through the LTIP and it will first be implemented for shares vesting in 2017 (i.e. the 2014 grant). The retention period only applies while the Director remains in employment. · Under RSA's Clawback Policy, unvested share awards granted from 2013 onwards can be subject to forfeiture (partial or full) covering a range of circumstances and other sanctions can apply. The policy is noted in detail on page 89. The Committee reviews the policy annually and may amend or update it, as required. · The Executive Directors' maximum award opportunity is set having regard to the market median grant within the benchmark peer groups. · Committee can act within the parameters of the Plan's rules as approved by shareholders and its performance conditions, covering matters such as the measures, calculation methods, performance period, eligibility rules, and general Plan mechanics. The purpose of discretion is to enable the LTIP to be appropriately administered under both normal and exceptional circumstances, e.g. corporate or capital events affecting the Group or a significant number of employees. In addition, the Committee can make such amendments as may be necessary to respond to legal, accounting or regulatory changes. Awards can be reduced or otherwise amended, provided the action is fair and justifiable, for example, to guard against a windfall award or the converse generated by an accounting treatment, to put employees in a neutral position following a capital event. Specifically, under a change of control, performance conditions are tested and awards can vest earlier than scheduled, pro-rated for time and performance, however, the Committee can determine whether a pro-ration for time is applied to other forms of award not subject to performance conditions.

Note to table: The policy applicable to the Executive Directors' long-term incentives is the same for all other participants who receive performance-based awards, with exception to the two-year post-vesting retention period which only covers Executive Directors. LTIP award opportunities vary for individuals below the Board.

Legacy incentives (variable remuneration)	· The Executive Directors will continue to retain any awards granted under RSA's 2006 Long-term Incentive Plan including deferred share awards. No further grants will be made under the 2006 Plan. The Committee can exercise the same discretion as noted in the LTIP section above, as appropriate.
Required shareholding Ensures alignment with shareholders' interests and enables the Director to build a stake in the business.	· Executive Directors must acquire shares in RSA and hold them according to specified levels, expressed as a salary multiple. · Executives have five years in which to build up their holding, commencing from the first date an unconditional share award is made to them as a Director. No shares are to be sold until the holding level is reached, except where required to cover statutory deductions. · The shares which count towards the holding are those held either in their own right or that of immediate family members, and any awarded by RSA which cease to be bound by any performance or service conditions. Vested LTIP shares form part of the holding during the two-year retention period. · For the purpose of reporting to shareholders, the holding levels will be determined using the mid-market closing price of an RSA ordinary share and executives' annual gross basic salaries, both as at 31 December in the reporting year. · The Committee can exercise discretion to temporarily waive or reduce the holding requirement or allow shares to be sold in exceptional business or personal circumstances (e.g. ill-health, divorce, financial hardship).

Note to table: Members of the Executive Team and selected senior leaders across the Group are also required to hold shares in RSA.

Opportunity and performance conditions

- Normal threshold LTIP opportunity is 58% of salary, rising to 144% of salary for on-target performance and 230% of salary at maximum.
- For recruitment purposes, or in highly exceptional circumstances, such as for retention, the Committee may agree to a conditional performance-related award being made up to an additional 170% of salary. This would be considered a 'one-off' award. Where an exceptional award is made, full disclosure will be given on the rationale.
- Conditional awards are determined based on the Director's salary as at the grant date, using the mid-market closing price of an RSA ordinary share, as determined by the Committee in accordance with the Plan's rules.
- The LTIP is intended to support the delivery of the business strategy over a three-year time horizon, and it will therefore include at least two metrics which, typically, will be directly linked to value creation through performance of the Group's share price, earnings/profitability, capital strength and balance-sheet strength. The measures can be assessed on an absolute and/or a relative basis. The metrics can be assessed through a scorecard. The performance conditions are not subject to re-testing.
- The performance period will normally be at least three years for all measures. By exception, the relative TSR metric will be assessed over circa 34 months for the 2014 grant only.
- The performance conditions and targets that will apply to the 2015 grant are detailed on pages 96 to 97.
- Shareholders will be consulted if changes to the measures are proposed by the Committee.

- Performance conditions for any outstanding awards are Group underlying Return on Equity and relative Total Shareholder Return as noted in the Directors' Remuneration Report for 2013 and in this Report on page 92. There is no re-testing of the performance conditions.

- Performance conditions do not apply.
- With effect from 1 January 2014, the shareholding levels to be reached are:

  Group Chief Executive: 300% of salary

  Other Executive Directors: 150% of salary

  The Executive Directors' shareholding levels as at 31 December 2014 are noted on page 90.
- The shareholding levels were determined with reference to the practice across the benchmark peer groups.

RSA'S REMUNERATION POLICY FOR EXECUTIVE DIRECTORS – CONTINUED

Purpose and Strategic Link	Policy for 2014 onwards
Appointment treatment Ensures a consistent and transparent approach is taken when appointing executives to the Board, in line with best practice.	· Appointment salaries are set using the same approach as for the Directors' salary reviews, as noted on pages 100 to 101 above. The Committee can exercise discretion on the timing and level of salary reviews for newly appointed Directors reflecting the individual's development and performance in the role. · Benefits, pension and contractual terms will be the same as those offered to current Executive Directors, but the Committee may exercise judgement to flex the package to accommodate any specific terms bespoke to the individual, e.g. related to health, annual leave, pension or insurance benefits. · No Director will be appointed on a notice period exceeding 12 months. · Where the Director is an internal promotion within the Group, he/she may be permitted to retain any legacy benefits or terms at the Committee's discretion. Continuity of service with the Group will be maintained. · Where the Director is an external appointment, the Committee may agree to a compensatory package reflecting incentives or benefits forfeited upon resignation. This will only be permitted on receipt of reasonable evidence of loss. There will be no cash sign-on payments where there is no loss. · Typically, the form of award that is being forfeited (e.g. cash or shares) will be replaced by the same form of award at RSA. Share awards, if they are subject to performance conditions, will generally be compensated by performance share grants in the LTIP. A fair value approach will be applied to determine the value of any compensatory share awards. · As a point of principle, restricted shares will only be used where a performance condition has been achieved or is nearing testing and there is a reasonable expectation of the vesting level. Cash bonuses may be bought out with restricted shares in order to give the Director an early 'stake' in RSA. · Committee can exercise discretion on how to settle any buyout and over what time period to phase any compensatory awards. It will have regard to the performance and vesting periods of the Director's forfeited incentives when determining this.

Note to table: The policy is largely consistent with the approach taken on recruitment remuneration for senior executives across the Group.

Leaver treatment Ensures fair treatment for departing executives while avoiding reward for failure.	· Directors who resign or are dismissed for cause are not eligible for an annual bonus if they have left or are under notice at the date of payment, and forfeit all unvested LTIP awards. They retain any shares they have voluntarily deferred in the LTIP under the 2006 Plan. Directors who resign can retain any compulsory deferred bonus shares awarded from 2014 onwards and any associated dividends or equivalents. · Good leavers, at the Committee's discretion, and normally including such circumstances as planned retirement, death, disability/medical severance, transfers outside of the Group and redundancy, would be eligible for an annual bonus for the proportion of the bonus year served. Deferred bonus shares will normally vest in line with the normal timetable, and LTIPs vest subject to performance and time-prorating. The Committee will make reasonable judgement on determining whether a Director qualifies for good leaver status by reason of retirement, by understanding the individual's intentions post employment termination and taking account of the context of his/her departure from the Group. The Committee has the discretion to make the final bonus award in cash and therefore waive compulsory deferral. · If a loss of office were to occur giving rise to a redundancy payment under prevailing employment legislation, the payment will be calculated taking account of the Director's length of service with the Group and his annual gross basic salary as at his employment termination date. Benefits continue until the employment termination date or the date the contractual notice period expires, whichever is the latter; they can be settled as payments. · The unexpired period of the Director's notice may either be paid or served, including on garden leave; this is regardless of which party has served notice. Generally, in the event of termination and in all cases of termination on performance grounds, the Committee's policy would be to seek and apply mitigation, and payments may be made on a phased basis.

Note to table: The policy is largely consistent with the approach taken for senior executives across the Group.

RSA'S REMUNERATION POLICY FOR NON-EXECUTIVE DIRECTORS

Purpose and Strategic Link	Policy for 2014 onwards
Fees Ensures competitive remuneration is paid to attract high calibre non-executives and recognise their time commitment on the Board.	· Fees are reviewed annually but an annual increase may not always be applied. · When assessing fee levels, account is taken of the required time commitment and the degree of expertise necessary to fulfil the particular role (such as chairing a committee). · The fees are benchmarked using the same peer groups as for the Executive Directors' remuneration, and will have regard to the market median. · Fees are paid in cash, subject to any required statutory deductions which are taken at source. · The Company has the discretion to introduce new fees or change the Non-Executives Directors' terms.
Other key terms of office Reflects current good governance.	· The Chairman is provided with secretarial support and the use of an office. · Non-Executive Directors may claim expenses in line with RSA's business and travel policies; some of these expenses do not qualify for HMRC tax relief. They receive no other benefits, but they can have RSA insurance products at a discount. · As the Non-Executive Directors are not employed by the Company, they are not eligible to receive a bonus award or participate in any of RSA's share plans. · The Non-Executive Directors may hold shares in RSA, but this is a personal matter and is not mandatory.

Opportunity and performance conditions

- If the Director is entered into an RSA LTIP and made an award of performance shares, these will be subject to the same performance conditions and vesting date as applies to other plan participants.
- Under normal circumstances, a new Executive Director will be eligible for incentive awards in line with the usual policy which provides for a maximum bonus of 160% of salary and LTIP award of 230% of salary. However, in exceptional circumstances, a higher bonus opportunity of up to 200% of salary may be agreed and a performance-related LTIP award may be approved by the Committee in the Director's first year of service up to the limit of 400% of salary.
- Restricted shares may be issued and, if so, these will not carry any financial performance conditions, only continued service with the Group or such other conditions as the Committee may agree. Restricted shares will only be awarded to an Executive Director in the case of compensation for loss upon recruitment.
- The Committee may agree to reduce the value of the compensatory award below the anticipated or actual loss value if the compensation is paid at an advanced date (i.e. early settlement).
- Any compensatory award using cash or restricted shares will always carry a service condition and an appropriate repayment schedule to protect shareholders' interests.

- Where good leavers receive pro-rated bonus or LTIP awards, performance is tested in line with the normal performance timetable. The Committee can, however, arrange for the performance conditions to be tested early and for awards to vest sooner than the scheduled date in cases of death in service, medical severance (with discretion) or under a change of control.
- Based on the leaving circumstances and having regard of shareholders' interests, the Committee can exercise discretion to reduce or lapse awards or enable a proportion of awards to be received but only in highly exceptional circumstances and where appropriate. Shareholders will be informed if discretion is applied, and details will be provided wherever possible.
- There are no pre-determined special provisions for Directors with regard to compensation for loss of office. Compensation is based on what would be earned by way of salary and other contractual benefits including pension, over the notice period. In the normal course of events, reasonable professional fees may be paid in relation to a Director's employment termination.
- No payment or compensation for loss of office made to any departing Director will be disclosed if it is less than £10,000 gross.

Opportunity and performance conditions

- Performance conditions do not apply.
- With exception to the Chairman, all Non-Executive Directors receive a base fee, further fees are then paid to reflect membership of more than one committee and for chairing a committee. A separate fee is paid to the Senior Independent Director. The Chairman receives a fee for his role and this is set by the Committee.
- Base fees (including the Chairman's fee) will be kept within the aggregate limit stated in the Group's Articles of Association.
- Details of the Chairman's fee and the Non-Executive Directors' fees earned for 2014 are noted on page 85.

- Performance conditions do not apply.
- Contractual terms are noted on page 106.

CONTRACTUAL TERMS

Executive Directors

Each of the Executive Directors is employed under a service agreement, which contains a variety of contractual terms and conditions. Their employment can be terminated by the Company or the individual, by the serving of 12 months' notice. In the case of summary dismissal, no notice will be served by the Company and no compensation will be paid in lieu of it. Notice periods are approved by the Committee and, at its discretion, can be reduced in the event an Executive Director resigns and wishes to leave prior to the end of his contractual notice period.

As with any RSA employee, the Executive Directors may be suspended from their duties in the event of their misconduct or during an investigation which might result in their dismissal.

The Company has the contractual right to place the Executive Directors on garden leave for part, or all, of their notice period. Salary, benefits and pension contributions continue during garden leave, but this time will not count towards the calculation of any annual bonus award that may subsequently be due. Executive Directors do not have terms which provide additional rights or payments to them in the event of a change of control, reconstruction or amalgamation of the Company. Restrictive covenants are in place to help protect RSA's interests should the individual leave the Company for any reason.

Executive Directors may hold one external non-executive position of a FTSE 100 company provided this does not give rise to any conflict of interest, with the approval of the Nomination Committee. If there is any remuneration arising from this role, the individual can retain it.

The date when each Executive Director was appointed to the Board is shown in the table on page 98. Contracts are available for inspection by shareholders at the Company's registered office.

Non-Executive Directors

Non-Executive Directors are not employed by RSA but they are engaged on a contract for services basis. They are issued with an appointment letter for an initial three-year term, which can be extended with the Board's agreement. The term of office can end prior to its expiry with either the individual or the Company serving one month's notice, or three months in respect of the Chairman. No notice will be served by the Company in the event of gross misconduct.

Non-Executive Directors are expected to disclose any conflicts of interest prior to, and during, the course of their tenure. They will not participate in making a decision if any conflict is considered to impact their independence or limit their ability to discharge their duties to shareholders. Since Non-Executive Directors and the Chairman receive only fees and expenses, no individual can have a loss of office payment, although payment in lieu of notice can be made.

The dates when each Non-Executive Director was appointed to the Board and the expiry dates of their current terms of office are shown in the table on page 98. Details of the Non-Executive Directors' fees are noted on page 97. Appointment letters are available for inspection by shareholders at the Company's registered office.

Directors' responsibilities

The Directors are responsible for preparing the Annual Report and Accounts in accordance with applicable laws and regulations. Company law requires the Directors to prepare such financial statements for each financial year. Under that law the Directors are required to prepare Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and Article 4 of the IAS Regulation and have also chosen to prepare the Parent Company financial statements under IFRS as adopted by the European Union. Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing these financial statements, International Accounting Standard 1 requires that Directors:

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable the users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance and;
- Make an assessment of the Group and Parent Company's ability to continue as a going concern.

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Group and Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Parent Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and Parent Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

RESPONSIBILITY STATEMENT

We confirm to the best of our knowledge:

- The financial statements on pages 115 to 207, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and Parent Company;
- The business review on pages 26 to 39, which is incorporated into the Directors' report, includes a fair review of the development and performance of the business and the position of the Group; and
- The risk review section on pages 44 to 47, which is incorporated into the Directors' report, includes a description of the principal risks and uncertainties faced by the Group.

Signed by order of the Board

STEPHEN HESTER
Group Chief Executive
25 February 2015

RICHARD HOUGHTON
Group Chief Financial Officer
25 February 2015

Independent Auditor's Report to the Members of RSA Insurance Group plc only

OPINIONS AND CONCLUSIONS ARISING FROM OUR AUDIT

1. Our opinion on the group financial statements is unmodified

We have audited the financial statements of RSA Insurance Group plc ('RSA') for the year ended 31 December 2014 set out on pages 115 to 207. In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent company's affairs as at 31 December 2014 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS as adopted by the EU');
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

2. Our assessment of risks of material misstatement

In arriving at our audit opinion above, our strategy was to apply increasing audit procedures in proportion to increasing risk of material misstatement of the financial statements.

To conduct our risk assessment, we considered the inherent risks facing the Group and the parent company, including those arising from the respective business models, and how the Group controls those risks. Our risk assessment therefore considered the external environment in which the Group's businesses operate in, including both wider economic factors and features specific to the relevant insurance market, such as competition, distribution models, trends in claims experience and the impact of regulatory compliance. We then assessed how such factors impact the Group's business models, and how risks arising both externally and internally are controlled. In doing so, we considered a number of factors including: the risk of fraud; the design and implementation of the Group's control environment; and the risk of management override of key controls. We updated our risk assessment after testing the operating effectiveness of a number of the Group's key controls including internal controls over financial reporting and specific anti-fraud controls as well as testing the basis of the going concern assumption.

Throughout this risk assessment, we considered how the factors identified impacted the Group's ability to continue as a going concern including its ability to meet future regulatory capital requirements and in particular those required by the Solvency II capital regime, applicable from 1 January 2016, considering the group's prospects for securing regulatory approval for the use of an internal model, all or in part, for calculating the future capital requirement, and contingency plans for achieving a materially higher capital requirement if it were required to enter the new regime on a standard formula basis.

Finally, we considered the inherent need for the directors to make and appropriately disclose judgements when preparing the financial statements.

As a result of this assessment, in arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit were as follows:

Insurance liabilities (provision for losses and loss adjustment expenses) £10,336 million

Refer to page 76 (Group Audit Committee Report), page 127 (accounting policy) and pages 179 to 183 (financial disclosures)

The risk	Our response
The Group has significant insurance liabilities representing 57% of total liabilities. The valuation of insurance liabilities is one of the key judgemental areas that our audit is concentrated on due to the level of subjectivity inherent in estimating the impact of claims events that have occurred but for which the eventual outcome remains uncertain. Particular judgement arises over the estimation of the value of amounts that should be provided for claims that have been incurred at the reporting date but have not yet been reported to the Group.	We were assisted by our own actuarial specialists to understand and challenge the Group's reserving practices and quantum of provisions established throughout our audit procedures in this area. Our audit procedures included, among others, evaluating and testing the key controls around the reserving process, including controls over the completeness and accuracy of the data that support key reserving calculations and controls over the valuation of individual claims reserves, such as large loss review controls and internal peer reviews (whereby second reviewers examine documentation supporting claims case reserves and consider if the amount recorded in the financial statements is valued appropriately). In certain components, as determined by the nature of the portfolios and reserving methodologies, we have carried out our own reprojections of insurance liabilities for certain classes of business in order to assess the reasonableness of estimates made by management. We evaluated the governance around the overall reserving process including scrutiny applied by local, regional and Group reserving committees and Group level actuarial reviews (as described on page 138) through evaluating whether those responsible had appropriate qualifications and experience, examining the output to assess the scope and depth of these processes and effectively reperforming this review for the most significant and subjective insurance liabilities and the key assumptions applied. We assessed key reserving assumptions including loss ratios, frequency and severity of claims, and where appropriate, the discount rates for longer tail classes of business by territory and line of business, and over time, comparing them to expectations based on the Group's historical experience, current trends and our own industry knowledge. We evaluated whether appropriate prudence had been applied in this context and whether reserving was consistent in approach, with sufficient justification for changes in assumptions. We used our industry knowledge to benchmark the Group's reserving methodologies and estimates of losses. Our audit focused particularly on lines of business with the most inherent uncertainty. These include the longer-tailed risks such as Asbestos and Deafness classes, the Danish Workers Compensation class, the Swedish Personal Accident classes, the Canadian General Liability class and classes of business affected by emerging industry issues such as the impact of Periodic Payment Orders on UK motor business. In view of the issues identified in the Irish business in the prior year around the amount and timing of recognition of case reserves, we continue to perform our own independent reprojections of the insurance liabilities in that business in order to conclude on the reasonableness of the estimates made by management. In addition to these areas we increased the extent of our testing in Canada in order to evaluate the appropriateness of the changes made to the reserving approach within this business, which were made in order to allow for a more granular application of the Group's reserving policy. Furthermore, we assessed whether the Group's disclosure in relation to insurance liabilities, including the discount rate and historic claims development, were appropriate.

Independent Auditor's Report to the Members of RSA Insurance Group plc only continued

Goodwill and other intangible assets £800 million

Refer to page 77 (Group Audit Committee Report), page 123 (accounting policy) and pages 165 to 167 (financial disclosures).

The risk	Our response
The valuation of intangible assets and goodwill is complex and typically requires a high level of judgement, particularly in countries where there is increased uncertainty over the economic prospects, growth rates or future business prospects, such as Argentina and Russia. Additional judgement arises where restructuring of businesses, such as in Ireland, increases the uncertainty inherent in predicting future performance. Goodwill is tested for impairment annually and the most significant judgements arise over the discount rate applied in the recoverable amount calculation and the assumptions supporting the underlying forecast cashflows, in particular the terminal growth rate, forecast growth rates in the projection period and the combined operating ratio. Our focus has been on goodwill in businesses that are most sensitive to the assumptions underlying the valuations. We have also focused our procedures on the basis for impairments that have been recognised in respect of the Group's businesses in Ireland and Russia. In addition, the Group holds a significant amount of capitalised software intangible assets, the majority of which are in the UK and Scandinavian businesses. Judgement arises over whether the software will generate sufficient economic benefits (for example in the form of cost savings or enhanced revenue generating capability), to support its value, the period benefits will be realised over, the extent to which benefits are derived from the use of the software and the amount of any impairments that are recognised.	In this area our audit procedures included, among others, comparing forecasts to business plans and also previous forecasts to actual results to assess the performance of the business and the accuracy of forecasting. We compared the group's assumptions to externally derived data as well as our own assessments in relation to key inputs such as projected economic growth, forecast loss ratios, cost inflation and discount rates and applied sensitivities in evaluating the Group's assessment. Our own valuation specialists have assisted us in evaluating the assumptions and methodologies used by the Group, in particular those relating to the discount rate and growth rates and in evaluating these assumptions with reference to valuations of similar companies. . Based on our understanding of the business and its operations, we have assessed whether there were any indications that capitalised software intangible assets may be impaired. Where impairment indicators were identified, for example due to lower expectations of the benefits to be received or higher than expected spend on IT systems, we compared the Group's view of the expected future benefits to our own. In assessing this, we compared the assumptions underlying the estimated future benefits to our understanding of the business and relevant economic and industry factors, including the impact of revised operating plan assumptions. We have also assessed the adequacy of the Group's disclosures in respect of goodwill and other intangible assets, and in particular the disclosure of sensitivity to key assumptions for those businesses with marginal levels of headroom.

Deferred tax assets £180 million

Refer to page 77 (Group Audit Committee Report), page 128 (accounting policy) and pages 184 to 186 (financial disclosures).

The risk	Our response
Significant judgement is required over the recoverability of deferred tax assets because the realisation of tax benefits is often dependent on future taxable profits and there are inherent uncertainties involved in forecasting, which is the basis of the assessment of recoverability. The deferred tax asset in the UK is particularly subjective given its sensitivity to expectations about the profitability of the UK business, which in turn depend on the achievement of revised operating plans.	In this area our audit procedures included, among others, challenging the key assumptions of the growth rates and profit margins which drive the emergence of future profit projections, particularly in the UK business to which the largest element of the deferred tax asset relates. Our audit procedures over the future projections included comparing the expected growth rates to the Group's approved operating plan, assessing the accuracy of that forecasting process in the past, and considering whether projected margins are achievable with reference to the business's recent performance and revised operating plans and our own industry knowledge. We have also considered the sensitivity of the forecast taxable profits to key assumptions such as the Combined Operating Ratio. Our own tax specialists were involved in considering the extent to which projected profits were taxable. We have also evaluated the adequacy of the Group's disclosures in respect of the assumptions supporting the deferred tax asset valuation and recognition.

Pensions and post-retirement obligations net pension deficit of £72 million

Refer to page 77 (Group Audit Committee Report), page 128 (accounting policy) and pages 187 to 193 (financial disclosures).

The risk	Our response
Significant judgements are made in valuing the Group's post-retirement defined benefit schemes and small changes in assumptions and estimates used to value the Group's net pension deficit would have a significant effect on the financial position of the Group.	In this area our audit procedures included, among others, challenging the key assumptions applied to determine the group's net deficit, being the discount rate, inflation rate and mortality/life expectancy. In this, we were supported by our own pension specialists. As part of our audit procedures we compared key assumptions against externally derived data. We also considered the adequacy of the group's disclosures in respect of the sensitivity of the deficits to these assumptions.

IT systems and controls

Refer to page 78 (Group Audit Committee Report).

The risk	Our response
Many financial reporting controls depend on the correct functioning of related elements of operational and financial IT systems, for example interfaces between policy administration and financial reporting systems or automated controls which are designed to prevent or detect inaccurate or incomplete transfers of financial information. This is an area of significant risk in our audit due to the complexity of the IT infrastructure, particularly in the UK, where there are legacy systems which require increased manual inputs.	In this area our audit procedures included, among others, testing general IT controls around system access and change management and testing controls over computer operations within specific applications which are required to be operating correctly to mitigate the risk of misstatement in the financial statements. With the support of our own IT specialists, we tested these controls through examining whether changes made to the systems were appropriately approved, and assessing whether appropriate restrictions were placed on access to core systems through testing the permissions and responsibilities of those given that access. Where general IT controls were not operating effectively and we were therefore unable to rely on the related automated IT controls, we addressed the increased risk that financial information was affected by extending the scope of our work, including testing manual compensating controls, such as reconciliations between systems and other information sources, and performing additional substantive testing, such as using extended sample sizes and performing data analysis routines over the full population of transactions.

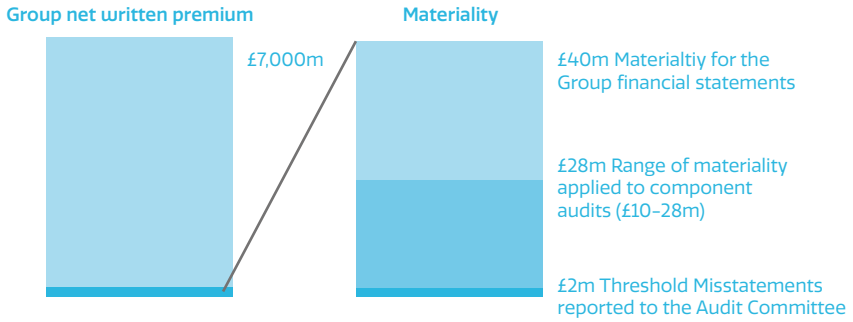
We continue to perform audit procedures over the risk of management override of controls. However, following changes to the management structure and control environment, after the identification in the prior year, of financial and claims irregularities in the Group's Irish business, we have not assessed this as one of the risks that had the greatest effect on our audit and, therefore, it is not separately identified in our report this year.

Independent Auditor's Report to the Members of RSA Insurance Group plc only continued

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

The materiality for the Group financial statements as a whole was set at £40m, determined with reference to a benchmark of net written premiums (of which it represents 0.5%). We considered net written premium to be the most appropriate benchmark because it is a key financial statement metric used in assessing the performance of the Group, but is not as volatile as profit and loss measures.

We agreed with the Audit Committee to report to it any corrected or uncorrected misstatements exceeding £2m, in addition to other identified misstatements that warranted reporting on qualitative grounds.



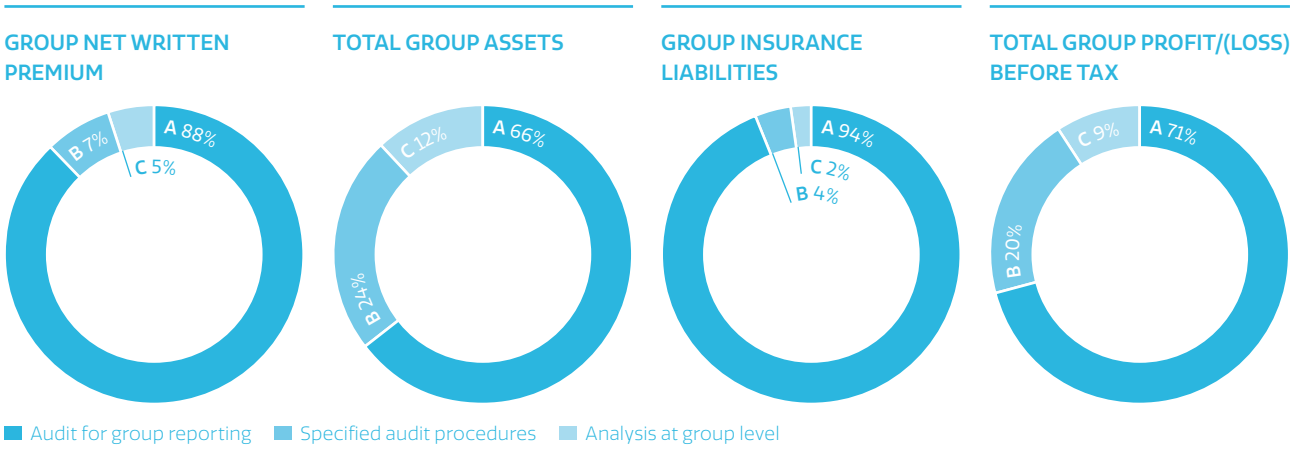
The Group has insurance operations in 27 countries that for audit purposes comprise 25 components. The Operating Segment disclosures in note 1 set out the individual significance of the major geographical regions.

Audits for group reporting purposes were performed by component auditors at seven reporting components being: Scandinavia; Canada; UK; Ireland; Italy; Brazil and Chile.

In addition, specified risk-focused audit procedures were performed by component auditors in eight further components. The components for which we performed specified risk-focused audit procedures were not individually significant enough to require an audit for group reporting purposes, but did present specific individual risks that needed to be addressed.

For the remaining components, there is no group reporting required from the local statutory audit team. We performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The different components accounted for the following percentages of the group's results:



The Group audit team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group audit team approved the component materialities, which ranged from £10m to £28m, having regard to the mix of size and risk profile of the Group across the components.

The Group audit team visited 8 component locations, being the UK, Ireland, Canada, Sweden, Denmark, Chile, Argentina and the UAE, including to assess the audit risk and strategy. Telephone conference meetings were also held with these component auditors and others that were not physically visited. At these visits and meetings, the findings reported to the Group audit team were discussed in more detail, and any further work required by the Group audit team was then performed by the component auditor.

4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

5. We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy; or
- the Group Audit Committee Report does not appropriately address matters communicated by us to the audit committee.

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited 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.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 66, in relation to going concern; and
- the part of the Corporate Governance Statement on pages 66 to 67 relating to the company's compliance with the ten provisions of the UK Corporate Governance Code (2012) specified for our review.

We have nothing to report in respect of the above responsibilities.

Independent Auditor's Report to the Members of RSA Insurance Group plc only continued

Scope of report and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 107, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

STUART CRISP
Senior Statutory Auditor
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
London
25 February 2015

Consolidated income statement

for the year ended 31 December 2014

	Notes	2014 £m	Restated[1] 2013 £m
Income			
Gross written premiums		**8,276**	9,136
Less: reinsurance premiums		**(1,309)**	(1,071)
Net written premiums		**6,967**	8,065
Change in the gross provision for unearned premiums		**41**	(153)
Less: change in provision for unearned premiums, reinsurers' share		**353**	83
Change in provision for unearned premiums		**394**	(70)
Net earned premiums		**7,361**	7,995
Net investment return	3	**521**	504
Other operating income	5	**188**	214
Total income		**8,070**	8,713
Expenses			
Gross claims incurred		**(5,360)**	(6,235)
Less: claims recoveries from reinsurers		**290**	636
Net claims	4	**(5,070)**	(5,599)
Underwriting and policy acquisition costs		**(2,410)**	(2,493)
Unwind of discount		**(180)**	(159)
Other operating expenses	5	**(425)**	(534)
Total expenses		**(8,085)**	(8,785)
Finance costs	5	**(123)**	(125)
Gains on disposals of businesses	2d	**203**	–
Net share of loss after tax of associates	12	**(5)**	(6)
Profit/(loss) before tax		**60**	(203)
Income tax expense	6	**(182)**	(94)
Loss after tax from continuing operations		**(122)**	(297)
Profit/(loss) from discontinued operations	2a	**198**	(41)
Profit/(loss) for the year		**76**	(338)
Attributable to:			
Equity holders of the Parent Company from continuing operations		**(129)**	(306)
Equity holders of the Parent Company from discontinued operations		**198**	(41)
		69	(347)
Non-controlling interests from continuing operations		**7**	9
Non-controlling interests from discontinued operations		**–**	–
		76	(338)
Earnings per share on profit/(loss) attributable to the ordinary shareholders of the Parent Company			
Basic			
From continuing operations	7	**(14.4)p**	(38.6)p
From discontinued operations	7	**20.6p**	(5.1)p
		6.2p	(43.7)p
Diluted			
From continuing operations	7	**(14.4)p**	(38.6)p
From discontinued operations	7	**20.6p**	(5.1)p
		6.2p	(43.7)p
Ordinary dividends paid and proposed for the year			
Interim dividend paid (per share)	8	**(nil)**	10.2p
Final dividend proposed (per share)	8	**2.0**	(nil)

Notes:
1. For information about the restatement applied to these financial statements, please see the Restatement section of the Significant Accounting Policies note (page 120).

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

Consolidated statement of comprehensive income

for the year ended 31 December 2014

	Notes	2014 £m	Restated[1] 2013 £m
Loss for the year from continuing operations		**(122)**	(297)
Profit/(loss) for the year from discontinued operations	2a	**198**	(41)
Profit/(loss) for the year		**76**	(338)
Items from continuing operations that may be reclassified to the income statement:			
Exchange losses net of tax	19	**(147)**	(126)
Share of associates' other comprehensive expense	19	**–**	(3)
Fair value gains/(losses) on available for sale financial assets net of tax	19	**247**	(246)
		100	(375)
Items from continuing operations that will not be reclassified to the income statement:			
Pension – remeasurement of net defined benefit liability net of tax	19	**(7)**	16
Movement in property revaluation surplus net of tax	19	**4**	2
		(3)	18
Other comprehensive income/(expense) for the year from continuing operations		**97**	(357)
Other comprehensive income/(expense) for the year from discontinued operations	2a	**12**	(13)
Total other comprehensive income/(expense) for the year	19	**109**	(370)
Total comprehensive expense for the year from continuing operations		**(25)**	(654)
Total comprehensive income for the year from discontinued operations		**210**	(54)
Total comprehensive income/(expense) for the year		**185**	(708)
Attributable to:			
Equity holders of the Parent Company		**178**	(713)
Non-controlling interests		**7**	5
		185	(708)

Notes:
1. For information about the restatement applied to these financial statements, please see the Restatement section of the Significant Accounting Policies note (page 120).

Consolidated statement of changes in equity

for the year ended 31 December 2014

	Ordinary share capital £m	Ordinary share premium £m	Own shares £m	Preference shares £m	Re-valuation reserves £m	Capital redemption reserve £m	Foreign currency translation reserve £m	Retained earnings £m	Share-holders' equity £m	Non-controlling interests £m	Total equity £m
Balance at 1 January 2013	989	717	(1)	125	554	8	182	1,176	3,750	129	3,879
Total comprehensive income											
(Loss)/profit for the year	–	–	–	–	–	–	–	(347)	(347)	9	(338)
Other comprehensive income (note 19)	–	–	–	–	(256)	–	(116)	6	(366)	(4)	(370)
	–	–	–	–	(256)	–	(116)	(341)	(713)	5	(708)
Transactions with owners of the Company											
Contribution and distribution											
Dividends (note 8)	–	–	–	–	–	–	–	(232)	(232)	(14)	(246)
Shares issued by scrip	18	(18)	–	–	–	–	–	75	75	–	75
Shares issued for cash (note 20)	2	5	–	–	–	–	–	–	7	–	7
Share based payments (note 30)	3	–	–	–	–	–	–	6	9	–	9
	23	(13)	–	–	–	–	–	(151)	(141)	(14)	(155)
Changes in shareholders' interests in subsidiaries	–	–	–	–	–	–	–	(3)	(3)	1	(2)
Total transactions with owners of the Company	23	(13)	–	–	–	–	–	(154)	(144)	(13)	(157)
Balance at 1 January 2014	**1,012**	**704**	**(1)**	**125**	**298**	**8**	**66**	**681**	**2,893**	**121**	**3,014**
Total comprehensive income											
Profit for the year	–	–	–	–	–	–	–	69	69	7	76
Other comprehensive income (note 19)	–	–	–	–	229	–	(112)	(8)	109	–	109
	–	–	–	–	229	–	(112)	61	178	7	185
Transactions with owners of the Company											
Contribution and distribution											
Dividends (note 8)	–	–	–	–	–	–	–	(9)	(9)	(6)	(15)
Shares issued for cash (note 20)	382	371	–	–	–	–	–	–	753	–	753
Share based payments (note 30)	2	–	–	–	–	–	–	8	10	–	10
Other reserve transfer (note 20)	(381)	–	–	–	–	381	–	–	–	–	–
	3	371	–	–	–	381	–	(1)	754	(6)	748
Changes in shareholders' interests in subsidiaries	–	–	–	–	–	–	–	–	–	(14)	(14)
Total transactions with owners of the Company	3	371	–	–	–	381	–	(1)	754	(20)	734
Balance at 31 December 2014	**1,015**	**1,075**	**(1)**	**125**	**527**	**389**	**(46)**	**741**	**3,825**	**108**	**3,933**

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

Consolidated statement of financial position

as at 31 December 2014

	Notes	2014 £m	2013 £m
Assets			
Goodwill and other intangible assets	9	**800**	1,103
Property and equipment	10	**151**	160
Investment property	11	**346**	331
Investments in associates	12	**31**	44
Financial assets	13	**12,840**	12,259
Total investments		**13,217**	12,634
Reinsurers' share of insurance contract liabilities	15	**1,897**	2,026
Insurance and reinsurance debtors	16	**3,174**	3,593
Deferred tax assets	26	**180**	302
Current tax assets	26	**21**	60
Other debtors and other assets	17	**759**	787
Other assets		**960**	1,149
Cash and cash equivalents	18	**1,011**	1,162
		21,210	21,827
Assets held for sale and disposal groups	2b	**808**	103
Total assets		**22,018**	21,930
Equity and liabilities			
Equity			
Shareholders' equity		**3,825**	2,893
Non-controlling interests		**108**	121
Total equity		**3,933**	3,014
Liabilities			
Loan capital	21	**1,243**	1,309
Insurance contract liabilities	23	**13,266**	15,001
Insurance and reinsurance liabilities	24	**904**	643
Borrowings	25	**299**	301
Deferred tax liabilities	26	**62**	82
Current tax liabilities	26	**83**	57
Provisions	27	**338**	366
Other liabilities	28	**1,160**	1,157
Provisions and other liabilities		**1,643**	1,662
		17,355	18,916
Liabilities of disposal groups	2b	**730**	–
Total liabilities		**18,085**	18,916
Total equity and liabilities		**22,018**	21,930

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

The financial statements were approved on 25 February 2015 by the Board of Directors and are signed on its behalf by:

RICHARD HOUGHTON
Chief Financial Officer

Consolidated statement of cashflows

for the year ended 31 December 2014

	Notes	2014 £m	Restated[1] 2013 £m
Cashflows from continuing operations	32	**33**	230
Tax paid		**(82)**	(103)
Dividend income		**23**	48
Interest income		**374**	410
Other investment income		**26**	28
Interest paid		**(119)**	(117)
Pension deficit funding		**(65)**	(73)
Net cashflows from operating activities – continuing operations		**190**	423
Net cashflows from operating activities – discontinued operations		**43**	33
Total net cashflows from operating activities		**233**	456
Proceeds from sales or maturities of:			
Financial assets		**4,674**	3,749
Investment property		**3**	41
Property and equipment		**32**	2
Investments in subsidiaries (net of cash disposed of)		**373**	2
Purchase of:			
Financial assets		**(6,085)**	(3,965)
Investment property		**(22)**	(43)
Property and equipment		**(40)**	(36)
Intangible assets		**(78)**	(120)
Investments in subsidiaries (net of cash acquired)		**–**	(15)
Investments in associates		**–**	(4)
Net cashflows used in investing activities – continuing operations		**(1,143)**	(389)
Net cashflows from investing activities – discontinued operations		**272**	(19)
Total net cashflows from investing activities		**(871)**	(408)
Proceeds from issue of share capital	20	**753**	7
Sale of shares to Non-controlling interests		**–**	2
Purchase of shares from Non-controlling interests		**–**	(1)
Dividends paid to ordinary shareholders		**–**	(148)
Dividends paid to preference shareholders		**(9)**	(9)
Dividends paid to Non-controlling interests		**(6)**	(14)
Redemption of long term borrowings		**(459)**	–
Receipt of long term borrowings		**395**	–
Net movement in other borrowings		**(2)**	4
Net cashflows from financing activities – continuing operations		**672**	(159)
Net cashflows from financing activities – discontinued operations		**–**	–
Total net cashflows from financing activities		**672**	(159)
Net increase/(decrease) in cash and cash equivalents		**34**	(111)
Cash and cash equivalents at beginning of the year		**1,162**	1,329
Effect of exchange rate changes on cash and cash equivalents		**(61)**	(56)
Cash and cash equivalents at end of the year	18	**1,135**	1,162

Notes:
1. For information about the restatement applied to these financial statements, please see the Restatement section of the Significant Accounting Policies note (page 120).

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

Significant accounting policies

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below.

CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The consolidated financial statements are prepared under the historical cost convention as modified by the revaluation of available for sale financial assets, investment property, Group occupied property, financial assets held for trading, all derivative contracts and held for sale assets.

Except where otherwise stated, all figures included in the consolidated financial statements are presented in millions of Pounds Sterling, shown as '£m', rounded to the nearest million.

There are no significant changes to Group accounting policies during 2014 other than those disclosed below.

Changes in accounting policies, presentation, disclosure and comparative information

The Group has not made any significant changes to its accounting policies during 2014 but it is now applying a number of new IFRSs. These new standards are IFRS 10 'Consolidated Financial Statements', IFRS 11 'Joint Arrangements' and IFRS 12 'Disclosure of Interests in Other Entities'.

IFRS 10 has introduced a new definition of control that may, in some circumstances, change the result of an assessment of a parent company's control over a subsidiary. The Group accounting policies now apply the revised definition of control but this has not resulted in any changes in the classification of its existing subsidiaries. In addition, there is no other entity in which the Group holds an interest that is now reclassified as a subsidiary.

IFRS 12 has resulted in a number of additional disclosures. The main additional disclosures in respect of investments in structured entities and of non-controlling interests are found in the Risk Management section on page 142 and in note 22 respectively.

In addition to the new IFRSs mentioned above, there are also a number of other revisions to existing IFRS that became effective during 2014, but none of these has a significant impact on these financial statements.

Restatement

The Group undertook a strategic review of its businesses during 2014. Going forward the Group has rearranged the operational structure of a number of its overseas operations and has revised its reporting structure to reflect the new operational structure. The basis of reporting the results of its operations internally has been revised to reflect the new operating structure. In addition the Group has made some changes to the basis of calculating the operating result (management basis). Further information on these changes are presented in note 1 to the financial statements. The comparative results in note 1 have been restated on the revised basis.

As a result of the strategic review, the Group has sold a number of its businesses and classified a number of other businesses as held for sale. For each of these businesses that represents a separate geographical area of operations, the business has been classified as a discontinued business. Further information on these businesses are provided in note 2. The comparative results in the income statement and the statement of other comprehensive income have been reclassified so as to present discontinued operations.

The comparative result for the earnings per share on profit/(loss) attributable to the ordinary shareholders of the Parent Company has been restated to reflect the changes to the number of ordinary shares in issue during 2014. The changes arise from the rights issue and the share consolidation. Note 20 to the financial statements provides further information on the changes to the number of ordinary shares in issue.

In the income statement, Other operating income and Other operating expenses have been restated as a result of reclassifying commission income of £77m previously reported in 2013 within Other operating expenses. This principally relates to the Noraxis business which has now been disposed of.

SELECTION OF ACCOUNTING POLICIES, CRITICAL JUDGEMENTS AND USE OF ESTIMATES

The Group exercises judgement in selecting each Group accounting policy. The accounting policies of the Group are selected by the directors to present financial statements that they consider provide the most relevant information.

The preparation of the consolidated financial statements requires the Group to exercise judgements in the use of estimates and assumptions in a number of key areas. The most significant of these are as follows:

Valuation of insurance liabilities

The Group makes critical judgements when valuing insurance liabilities. The methodology of measuring insurance liabilities is described in Estimation Techniques, Risks Uncertainties and Contingencies. The results of applying this methodology and assumptions applied are set out in note 23 to the consolidated financial statements.

Measurement of the value of goodwill and other intangible assets

The Group performs an impairment review on each item of goodwill annually and other intangible assets when there is an indication of impairment of the value of the asset. This requires the use of judgements in the models used to value the assets and the use of assumptions on the future performance of the Group businesses. Details of the methodology and assumptions are included in note 9 to the financial statements.

Recognition and valuation of deferred tax assets

The Group makes judgements in its assessments on the likelihood of its ability to utilise deferred tax assets in the future when valuing deferred tax assets. This requires the use of models of the future profitability of individual businesses and assumptions on how these businesses will perform. The methodology employed is described in note 26 to the consolidated financial statements.

Retirement benefit obligations

The Group exercises judgement in making assumptions when valuing pension and other post-retirement benefits accrued by its current and former employees. These assumptions include the estimation of the future mortality of its current and former employees, the value of the future benefits that have been accrued, and the appropriate discount rate used to value the obligations. These assumptions and the sensitivity of these assumptions are disclosed in note 29 to the consolidated financial statements.

Businesses classified as discontinued and as held for sale

The Group exercises judgements when determining the businesses that meet the criteria for designation as discontinued businesses, and on the timing and valuation of those businesses that are designated as held for sale.

These judgements include the likelihood of the successful completion of a sale and the valuation of the estimated proceeds from a future sale. The analysis of the businesses classified as discontinued and the analysis of those classified as held for sale are included in notes 2a and 2b to the consolidated financial statements.

CONSOLIDATION

Subsidiaries

Subsidiaries are entities over which the Group has control. The Group controls subsidiary if the Group has all of the following; the power over the subsidiary, exposure, or rights, to variable returns from its involvement with the subsidiary, and the ability to use its power over the subsidiary to affect its returns.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange.

Significant accounting policies continued

For business combinations completed on or after 1 January 2010, the cost of acquisition includes the fair value of deferred and contingent consideration at the acquisition date and subsequent changes in the carrying value of the consideration are recognised in the consolidated income statement. For business combinations completed prior to 31 December 2009, the cost also includes costs directly attributable to the acquisition and the value of contingent consideration on settlement.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

Changes in the ownership interests of a subsidiary between shareholders of the Group and shareholders holding a non-controlling interest are accounted for as transactions between equity holders of the Group. Any difference between the fair value of the consideration given by the transferee and the carrying value of the ownership interest transferred is recognised directly in equity.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries are changed where necessary to ensure consistency with the policies adopted by the Group.

Associates

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost.

The Group's shares of its associates' profits or losses are recognised in the consolidated income statement and its share of comprehensive income is recognised in the consolidated statement of comprehensive income. The cumulative post-acquisition movements are adjusted in the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Adjustments are made, where necessary, to the accounting policies of associates to ensure consistency with the policies adopted by the Group.

TRANSLATION OF FOREIGN CURRENCIES

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

The results and financial position of those Group entities whose functional currency is not Sterling are translated into Sterling as follows:

- Assets and liabilities for each statement of financial position presented are translated at closing exchange rates at the end of the period
- Income and expenses for each income statement are translated at average exchange rates during each period
- All resulting exchange differences are recognised as a component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are recognised in other comprehensive income within the foreign currency translation reserve. When a foreign entity is sold, the cumulative exchange differences relating to that foreign entity are recognised in the consolidated income statement as part of the gain or loss on sale.

Goodwill arising on the acquisition of a foreign entity is treated as an asset of the foreign entity and the carrying value is translated at the closing exchange rate.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates 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 consolidated income statement.

INTANGIBLE ASSETS

Goodwill

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

For business combinations completed prior to 31 December 2009, the cost also includes costs directly attributable to the acquisition and the value of contingent consideration on settlement.

Goodwill is allocated to cash generating units for the purpose of impairment testing. Goodwill is subject to an impairment review at least annually. An impairment review is also carried out whenever there is an indication that goodwill is impaired. Where the carrying amount is more than the recoverable amount, impairment is recognised in the consolidated income statement. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Other intangible assets

Other intangible assets comprise renewal rights, customer lists, brands and other acquired identifiable non-monetary assets without physical form.

When valuing insurance liabilities in a business combination, provisions for losses and loss adjustment expenses are discounted to present value. Following the acquisition, the acquired provisions for losses and loss adjustment expenses are, where applicable, valued in accordance with Group accounting policies at full nominal value. This increase in insurance liabilities is matched by the recognition of an intangible asset arising from acquired provisions for losses and loss adjustment expenses, representing the present value of future investment income implicit in the claims discount. The intangible asset is amortised over the expected run off period and is tested within the liability adequacy test of insurance contract liabilities where the balances of intangible assets associated with insurance contracts are deducted from the carrying amount of the insurance contract liabilities. The expected run off period is between 1 and 5 years.

Expenditure that enhances the future economic benefits arising from computer software is recognised as an intangible asset.

Computer software and other intangible assets are carried at cost less accumulated amortisation and less any accumulated impairment losses. Amortisation on computer software and other intangible assets is calculated using the straight line method to allocate the cost over their estimated useful lives, which is normally estimated to be between 3 and 12 years.

An impairment review is carried out whenever there is an indication that an intangible asset is impaired. Where the carrying amount is more than the recoverable amount, an impairment charge is recognised in the consolidated income statement.

Impairment losses previously recognised on intangible assets may be reversed in subsequent periods provided that the revised carrying amount does not exceed the value that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised.

PROPERTY AND EQUIPMENT

Property and equipment comprise Group occupied land and buildings, fixtures, fittings and equipment (including computer hardware and motor vehicles). These assets are depreciated over their estimated useful life after taking into account residual values.

Group occupied property is stated at fair value, less subsequent depreciation for buildings.

All other classes are stated at cost less accumulated depreciation and accumulated impairment loss. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset only when it is probable that future economic benefits associated to the item will flow to the Group and the cost can be measured reliably.

Significant accounting policies continued

Land is not depreciated. Depreciation on all other items is calculated on the straight line method to write down the cost of such assets to their residual value over their estimated useful lives as follows:

Group occupied buildings	normally 30 years
Fixtures and fittings	10 years
Motor vehicles	4 years
Equipment	3–5 years

The asset's residual values and useful lives are reviewed and adjusted if appropriate.

An impairment review is carried out whenever there is an indication that the assets are impaired. An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Increases in the carrying amount arising on the revaluation of Group occupied property are credited to revaluation reserves in other comprehensive income. Decreases that offset the previous increases of the same asset are charged against revaluation surplus directly in other comprehensive income; other decreases are charged to the consolidated income statement. Each year the difference between depreciation based on the fair value of the asset charged to the consolidated income statement and depreciation based on the asset's original cost is transferred from revaluation reserve to retained earnings.

INVESTMENT PROPERTY

Investment property, comprising freehold and leasehold land and buildings, is held for long-term rental yields and is not occupied by the Group.

Investment property is recorded at fair value, measured by independent professionally qualified valuers who hold a recognised and relevant professional qualification and have recent experience in the location and category of the investment property being valued. Valuations are carried out on an annual basis or more frequently. For interim periods internal valuations are made by reference to current market conditions. Unrealised gains and unrealised losses or changes are recognised in net investment return.

FINANCIAL ASSETS

A financial asset is initially recognised on the date the Group commits to purchase the asset at fair value plus, in the case of all financial assets not classified as at fair value through the consolidated income statement, transaction costs that are directly attributable to its acquisition. A financial asset is derecognised when the rights to receive cashflows from the investment have expired or have been transferred and when the Group has substantially transferred the risks and rewards of ownership of the asset.

On initial recognition, the financial assets may be categorised into the following categories: financial assets at fair value through the income statement, loans and receivables, held to maturity financial assets and available for sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

The Group designates investments in equity and debt securities in accordance with its investment strategy on the basis on which the investment return is managed and the performance is evaluated internally. Where the investment return is managed on the basis of the periodic cashflows arising from the investment, a financial asset is designated as an available for sale financial asset. Where the investment return is managed on the basis of the total return on the investment (including unrealised investment gains), the financial asset is designated as at fair value through the consolidated income statement. Other investments comprising loans, reinsurance deposits and other deposits are classified as loans and receivables.

Financial assets arising from non-investment activities are categorised as loans and receivables.

Investment income is recognised in the consolidated income statement. Dividends on equity investments are recognised on the date at which the investment is priced 'ex dividend'. Interest income is recognised using the effective interest method. Unrealised gains and losses on available for sale investments are recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary items (which are recognised in the consolidated income statement). On derecognition of an investment classified as available for sale, the cumulative gain or loss previously recognised in other comprehensive income is recognised in the consolidated income statement.

For available for sale financial assets, where the cumulative changes in fair value recognised in other comprehensive income represent a loss, the individual asset or group of assets is reviewed to test whether an indication of impairment exists.

For securities whose fair values are readily determined and where there is objective evidence that such an asset is impaired, including for equity investments a significant or prolonged decline in the fair value below cost, the net loss previously charged to other comprehensive income is reclassified to the consolidated income statement.

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

For other loans and receivables, where there is evidence that the contracted cashflows will not be received in full, an impairment charge is recognised in the consolidated income statement to reduce the carrying value of the financial asset to its recoverable amount.

DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are recognised in the consolidated statement of financial position on a trade date basis and are carried at fair value. Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and the nature of the item being hedged. Where a derivative is not designated as a hedging instrument, changes in its fair value are recognised in the consolidated income statement.

HEDGING

Transactions are classified as hedging transactions when the following conditions for hedge accounting are met:

- There is a formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge
- The hedge is expected to be highly effective in achieving offsetting changes in fair value or cashflows attributable to the hedged risk, consistent with the originally documented risk management strategy for that particular hedging relationship
- The effectiveness of the hedge can be reliably measured
- The hedge is assessed on an ongoing basis and determined to have been highly effective.

Hedge of a net investment in a foreign operation

Where a foreign exchange derivative is designated as a hedging instrument against the net investment in foreign entities, the effective portion of the hedge is recognised in other comprehensive income; the gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement.

For forward foreign exchange contracts, on designation, the interest element is separated from the forward exchange rate and is excluded from the hedge relationship. Effectiveness of the hedge is then measured using the spot rate, which is also the exchange rate used when measuring the net investment in the designated subsidiaries.

For foreign exchange options the hedge designation is to hedge the value of the foreign operations at the strike price at the exercise date of the option.

Gains and losses accumulated in other comprehensive income are included in the income statement when the underlying net investment in a foreign operation is derecognised.

Hedge of future cashflows

Where a derivative is designated as a hedging instrument against the cashflows from a fixed interest security, the gains and losses on the derivative are recognised initially in other comprehensive income in the cashflow hedge reserve. The amount recognised is adjusted to the lesser of the cumulative gain or loss on the derivative from the inception of the hedge and the cumulative change in fair value of the expected future cashflows of the security from the inception of the hedge. The accumulated amount, through other comprehensive income in the cashflow hedge reserve, is reclassified to the income statement in the period in which the hedged cashflows affect profit or loss.

Significant accounting policies continued

Hedge of changes in fair value

Where a derivative is designated as a hedging instrument in a fair value hedge of the changes in value of a fixed interest security, the gains and losses arising from the change in value on the derivative are recognised in the income statement. The change in fair value of the hedged investments that are attributable to the hedged risk is transferred from the revaluation reserves to the income statement

ESTIMATION OF THE FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The methods and assumptions used by the Group in estimating the fair value of financial assets and liabilities are:

- For fixed maturity securities, fair values are generally based upon quoted market prices. Where market prices are not readily available, fair values are estimated using either values obtained from quoted market prices of comparable securities or estimated by discounting expected future cashflows using a current market rate applicable to the yield, credit quality and maturity of the investment
- For equity securities fair values are based upon quoted market prices
- If the market for a financial asset is not active, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cashflow analysis and option pricing models
- For mortgage loans on real estate and collateral loans, fair values are estimated using discounted cashflow calculations based upon prevailing market rates
- For cash, loans and receivables, commercial paper, other assets, liabilities and accruals, carrying amounts approximate to fair values
- For notes, bonds, loans payable and loan capital, fair values are determined by reference to quoted market prices or estimated using discounted cashflow calculations based upon prevailing market rates. Loan capital is carried at amortised cost and, when different, fair value is disclosed in the relevant note. For borrowings that carry a variable rate of interest (other than loan capital), carrying values approximate to fair values
- For derivatives, fair values are based upon market prices where available. Where market prices are not directly available, fair values are estimated using models of future cashflows with all significant inputs based on observable market prices.

For disclosure purposes, fair value measurements are classified as Level 1, 2 or 3 based on the degree to which fair value is observable:

- 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 inputs 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).

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 Group agrees to compensate a policyholder if a specified uncertain future event (other than a change in a 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.

Recognition of income

Premiums written are accounted for in the period in which the contract is entered into and include estimates where the amounts are not determined at the end of the reporting period. Premiums written exclude taxes. Duties levied on premiums and directly related expenses, e.g. commissions are recognised as an expense. Premiums are earned as revenue over the period of the contract and are calculated principally on a daily pro rata basis.

Insurance contract liabilities

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

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

The provisions for losses and loss adjustment expenses whether reported or not, comprise the estimated cost of claims incurred but not settled at the end of the reporting period. It includes related expenses and a deduction for the expected value of salvage and other recoveries. The provision is determined using the best information available of claims settlement patterns, forecast inflation and settlement of claims. The provisions for losses and loss adjustment expenses relating to long-term permanent disability claims in the UK and Scandinavia are also determined using recognised actuarial methods.

The provisions for losses and loss adjustment expenses, and related reinsurance recoveries, are discounted where there is a particularly 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, those categories of claims where the average period of settlement is 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 assets, which are appropriate in magnitude and nature to cover the provisions for losses and loss adjustment expenses being discounted, which in practice are bonds and property, during the period necessary for the payment of such claims.

Differences between the estimated cost and subsequent settlement of claims are recognised in the income statement in the year in which they are settled or in which the provisions for losses and loss adjustment expenses are re-estimated.

At the end of each reporting period liability adequacy tests are performed to ensure the adequacy of the provision for unearned premium net of related DAC assets. In performing these tests best estimates of future contractual cashflows, claims handling and administrative expenses as well as investment income on assets backing such liabilities are used. Any deficiency is charged to the income statement 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 determined at the end of the reporting period. Premiums are expensed over the period of the reinsurance contract, calculated principally on a daily pro rata basis.

A reinsurance asset (reinsurers' share of insurance contract liabilities) is recognised to reflect the amount estimated to be recoverable under the reinsurance contracts in respect of the provisions for losses and loss adjustment expenses reported under insurance contract liabilities. The amount recoverable from reinsurers is initially valued on the same basis as the underlying provisions for losses and loss adjustment expenses. The amount recoverable is reduced when there is an event arising after the initial recognition that provides objective evidence that the Group may not receive all amounts due under the reinsurance contract and the event has a reliably measurable impact on the expected amount that will be recovered from the reinsurer.

The reinsurers' share of each unexpired risk provision is recognised on the same basis.

Annuities purchased by the Group to make payments under structured settlement arrangements are accounted for as reinsurance ceded if the Group remains liable for the settlement in the event of default by the annuity provider. Any gain or loss arising on the purchase of an annuity is recognised in the consolidated income statement at the date of purchase.

Significant accounting policies continued

Other operating income

Administration fee income is charged to policyholders when mid term adjustments are made to the cover provided and recognised in full on the date that the change is made.

Premium instalment policy fee income is charged to policyholders when premium is paid in instalments and is recognised over the period that the instalments are being made.

Engineering inspection fees are charged for the inspection of plant and machinery and are recognised in full in the month in which the inspection is performed.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are short term, highly liquid investments that are subject to insignificant changes in value and are readily convertible into known amounts of cash. Cash equivalents principally comprise financial assets with less than three months' maturity from the date of acquisition.

OWN SHARES

Own shares are deducted from equity. No gain or loss is recognised on the purchase, sale, issue or cancellation of the own shares. Any consideration paid or received is recognised directly in equity.

LOAN CAPITAL

Loan capital comprises subordinated bonds which are initially measured at the consideration received less transaction costs. Subsequently, loan capital is measured at amortised cost using the effective interest rate method.

TAXATION

Taxation in the consolidated income statement is based on profits and income for the year as determined in accordance with the relevant tax legislation, together with adjustments to provisions for prior years. Deferred tax in respect of the unremitted earnings of overseas subsidiaries and principal associated undertakings is recognised as an expense in the year in which the profits arise, except where the remittance of earnings can be controlled and it is probable that remittance will not take place in the foreseeable future, in which case the tax charge is recognised on the dividends received.

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

Deferred tax 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.

EMPLOYEE BENEFITS

Group companies operate various pension schemes. The schemes are generally funded through payments to trustee administered funds. The Group has both defined contribution and defined benefit schemes. A defined contribution scheme is a pension scheme under which the Group pays fixed contributions into a separate entity. A defined benefit scheme is a pension scheme that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary.

Post-retirement benefits (including pension schemes and post-retirement health schemes)

Contributions to defined contribution pension schemes are charged in the consolidated income statement in the period in which the employment services qualifying for the benefit are provided. The Group has no further payment obligations once the contributions have been paid.

The value of the net defined benefit liability (asset) recognised in the consolidated statement of financial position for each individual post-retirement scheme is calculated as follows:

- The present value of defined benefit obligation of the scheme at the end of the reporting period; minus
- The fair value at the end of the reporting period of the scheme assets out of which the obligations are to be settled directly.

The present value of defined benefit obligations and the present value of additional benefits accruing during the period are calculated using the Projected Unit Credit Method.

The calculation of the present value of accrued benefits includes an actuarial assumption of future interest rates, which is used to discount the expected ultimate cost of providing the benefits. The discount rate is determined at the end of each reporting period by reference to current market yields on high quality corporate bonds identified to match the currency and estimated term of the obligations.

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

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

- The current service cost
- The past service costs and gains or losses on settlements
- Net interest on the net defined benefit liability (asset)
- Administration costs of operating the pension schemes.

The current service cost in respect of defined benefit schemes comprises the present value of the additional benefits attributable to employees' services provided during the period.

Past service costs arise from a plan amendment or curtailment. Past service costs are recognised in the consolidated income statement at the earlier of when the plan amendment or curtailment occurs and, where applicable, when the Group recognises related restructuring costs or termination benefits.

The net interest on the net defined benefit liability (asset) is determined by multiplying the net defined benefit liability (asset) by the discount rate, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

Remeasurements of the net defined benefit liability (asset) comprise actuarial gains and losses and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability (asset)) and are recognised in other comprehensive income.

Actuarial gains and losses arise from changes to actuarial assumptions when revaluing future benefits and from actual experience in respect of scheme liabilities.

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of when it can no longer withdraw the offer and when any related restructuring costs are recognised. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

Significant accounting policies continued

Share based payments

The value of the employee share options and other equity settled share based payments is calculated at fair value at the grant date using appropriate and recognised option pricing models.

Vesting conditions, which comprise service conditions and performance conditions, other than those based upon market conditions, are not taken into account when estimating the fair value of such awards but are taken into account by adjusting the number of equity instruments included in the ultimate measurement of the transaction amount. The value of the awards is recognised as an expense on a systematic basis over the period during which the employment services are provided. Where an award of options is cancelled by an employee, the full value of the award (less any value previously recognised) is recognised at the cancellation date.

The proceeds received net of any transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

PROVISIONS

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and where it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

DIVIDENDS TO EQUITY HOLDERS

The final dividend is recognised as a liability when approved at the Annual General Meeting.

LEASES

Rental income from operating leases is recognised on a straight line basis over the term of the lease. Payments made under operating leases are charged on a straight line basis over the term of the lease.

OPERATING SEGMENTS

Operating segments were previously disclosed on the basis of the regional structure of the Group which formed the basis on which management reports were presented for review by the Board of Directors, determined to be the chief operating decision maker.

Following the conclusion of a strategic review of business conducted in 2014 the Board of Directors now focus on the Group's core operations in the UK and Ireland, Canada, Scandinavia and Latin America which form the basis of its assessment of business performance and decisions on the allocation of capital and resources going forward. The remainder of the ongoing business is considered non-core.

Accordingly, the operating segments in note 1 are now presented on the basis of core and non-core businesses with 2013 having been restated on a consistent basis.

Transactions that are unlikely to recur of £67m have been excluded from the Operating result on a management basis and disclosed as non-recurring charges, details of which are provided in note 1.

Additionally, on a management basis Investment expenses have been reclassified from Other Activities into the Investment Results and Economic assumptions changes is a new line item and capture the discount rate changes (£98m cost, 2013-£63m) made at 31 December which were previously reported within the discount unwind.

ASSETS AND LIABILITIES HELD FOR SALE AND DISCONTINUED OPERATIONS

Assets are classified as held for sale if their carrying amount is to be recovered principally through a sale transaction, which highly probable and will be completed within one year from the date of classification, rather than through continuing use. Where the asset comprises a separate business operation (e.g. a subsidiary, an associate or a branch), the assets (including any goodwill allocated to the business) and the liabilities of the business are considered together and classified as a disposal group Such assets are measured at the lower of carrying amount and fair value less costs to sell and are classified separately from other assets in the statement of financial position. Assets and liabilities of a disposal group are not netted. In the period where a non current asset or disposal group is recognised for the first time, the consolidated statement of financial position for the comparative prior period presented is not restated.

Discontinued operations are operations that have been sold during the reporting period or classified as a disposal group and that represents a separate geographical area of operations.

Discontinued operations are presented on the face of the income statement as a single amount comprising the total of the net profit or loss of discontinued operations and the after tax gain or loss recognised on the sale or the measurement to fair value less costs to sell of the net assets constituting the discontinued operations. In the period where an operation is presented for the first time as discontinued, the consolidated income statement for the comparative prior period presented is restated to present that operation as discontinued.

Unless otherwise stated, in the period where an operation is presented as discontinued, the notes to the consolidated financial statements contain amounts attributable to continuing operations only. The comparatives for the notes to the consolidated income statement are restated.

CURRENT AND NON CURRENT DISTINCTION

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

The Group's consolidated statement of financial position is not presented using current and non current classifications. However, the following balances are generally classified as current: cash and cash equivalents, insurance and reinsurance debtors.

The following balances are generally classified as non current: goodwill and other intangible assets; property and equipment; investment property; investment in associates; financial assets; deferred tax assets; loan capital; and deferred tax liabilities.

The remaining balances are of a mixed nature. The current and non current portions of such balances are set out in the respective notes or in the risk management section.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Pronouncements issued by the International Accounting Standards Board (IASB) and adopted by the EU but which are not yet mandatory for adoption and have yet to be adopted in the Group consolidated financial statements are described below:

There are a number of changes to IFRS that become mandatory in 2015 or after 2015 but which have no significant impact on the consolidated financial statements of the Group

The IASB has issued a new IFRS and a number of changes to existing IFRS that have not yet been adopted by the EU. The most significant of these ongoing developments for the Group is IFRS 9 'Financial Instruments'.

Estimation techniques, risks, uncertainties and contingencies

INTRODUCTION

One of the purposes of insurance is to enable policyholders to protect themselves against uncertain future events. Insurance companies accept the transfer of uncertainty from policyholders and seek to add value through the aggregation and management of these risks.

The uncertainty inherent in insurance is inevitably reflected in the financial statements of insurance companies. The uncertainty in the financial statements principally arises in respect of the insurance contract liabilities of the company.

The insurance contract liabilities of an insurance company include the provision for unearned premiums and unexpired risks and the provision for losses and loss adjustment expenses. Unearned premiums and unexpired risks represent the amount of income set aside by the company to cover the cost of claims that may arise during the unexpired period of risk of insurance policies in force at the end of the reporting period. Outstanding claims represent the company's estimate of the cost of settlement of claims that have occurred by the end of the reporting period but have not yet been finally settled.

In addition to the inherent uncertainty of having to make provision for future events, there is also considerable uncertainty in regard to the eventual outcome of the claims that have occurred by the end of the reporting period but remain unsettled. This includes claims that may have occurred but have not yet been notified to the company and those that are not yet apparent to the insured.

As a consequence of this uncertainty, the insurance company needs to apply sophisticated estimation techniques to determine the appropriate provisions.

ESTIMATION TECHNIQUES

Claims and unexpired risks provisions are determined based upon previous claims experience, knowledge of events and the terms and conditions of the relevant policies and on interpretation of circumstances. Particularly relevant is experience with similar cases and historical claims payment trends. The approach also includes the consideration of the development of loss payment trends, the potential longer-term significance of large events, the levels of unpaid claims, legislative changes, judicial decisions and economic, political and regulatory conditions.

Where possible, the Group adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The Group's estimates of losses and loss expenses are reached after a review of several commonly accepted actuarial projection methodologies and a number of different bases to determine these provisions. These include methods based upon the following:

- The development of previously settled claims, where payments to date are extrapolated for each prior year
- Estimates based upon a projection of claims numbers and average cost
- Notified claims development, where notified claims to date for each year are extrapolated based upon observed development of earlier years
- Expected loss ratios.

In addition, the Group uses other methods such as the Bornhuetter-Ferguson method, which combines features of the above methods. The Group also uses bespoke methods for specialist classes of business. In selecting its estimate, the Group considers the appropriateness of the methods and bases to the individual circumstances of the provision class and underwriting year. The processes lead to the determination of the actuarial indication of the provision. The actuarial indication allows for crystallised risk, it does not allow for uncrystallised risks such the potential change in discount rate for lump sum damages awards described below.

Large claims impacting each relevant business class 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.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability.

The provisions for losses and loss adjustment expenses are subject to close scrutiny both within the Group's business units and at Group Corporate Centre. In addition, for major classes where the risks and uncertainties inherent in the provisions are greatest, regular and ad hoc detailed reviews are undertaken by advisers who are able to draw upon their specialist expertise and a broader knowledge of current industry trends in claims development. As an example, the Group's exposure to asbestos related losses is examined on this basis. The results of these reviews are considered when establishing the levels of provisions for losses and loss adjustment expenses and unexpired periods of risk. The level of provision carried by the Group targets the inclusion of a margin of 5%, for the core businesses. The appropriateness of the 5% target is subject to regular review. Margin is defined as the difference between the carried provision and the actuarial indication.

It should be emphasised that the estimation techniques for the determination of insurance contract liabilities involve obtaining corroborative evidence from as wide a range of sources as possible and combining these to form the overall estimate.

PENSIONS

The pension assets and post-retirement liabilities are calculated in accordance with International Accounting Standard 19 (IAS 19). The assets, liabilities and income statement charge, calculated in accordance with IAS 19, are sensitive to the assumptions made from time to time, including inflation, interest rate and mortality. IAS 19 compares, at a given date, the current market value of a pension fund's assets with its long-term liabilities, which are calculated using a discount rate in line with yields on 'AA' rated bonds of suitable duration and currency. As such, the financial position of a pension fund on this basis is highly sensitive to changes in bond rates and will also be impacted by changes in equity markets.

UNCERTAINTIES AND CONTINGENCIES

The uncertainty arising under insurance contracts may be characterised under a number of specific headings, such as:

- Uncertainty as to whether an event has occurred which would give rise to a policyholder suffering an insured loss
- Uncertainty as to the extent of policy coverage and limits applicable
- Uncertainty as to the amount of insured loss suffered by a policyholder as a result of the event occurring
- Uncertainty over the timing of a settlement to a policyholder for a loss suffered.

The degree of uncertainty will vary by policy class according to the characteristics of the insured risks and the cost of a claim will be determined by the actual loss suffered by the policyholder.

There may be significant reporting lags between the occurrence of the insured event and the time it is actually reported to the Group. Following the identification and notification of an insured loss, there may still be uncertainty as to the magnitude and timing of the settlement of the claim. There are many factors that will determine the level of uncertainty such as inflation, inconsistent judicial interpretations and court judgements that broaden policy coverage beyond the intent of the original insurance, legislative changes and claims handling procedures.

The establishment of insurance contract liabilities is an inherently uncertain process and, as a consequence of this uncertainty, the eventual cost of settlement of outstanding claims and unexpired risks can vary substantially from the initial estimates, particularly for the Group's long tail lines of business.

The Group has exposures to risks in each class of business within each operating segment that may develop and that could have a material impact upon the Group's financial position. The geographic and insurance risk diversity within the Group's portfolio of issued insurance policies mean it is not possible to predict whether material development will occur and, if it does occur, the location and the timing of such an occurrence. The estimation of insurance contract liabilities involves the use of judgements and assumptions that are specific to the insurance risks within each territory and the particular type of insurance risk covered. The diversity of the insurance risks results in it not being possible to identify individual judgements and assumptions that are more likely than others to have a material impact on the future development of the insurance contract liabilities.

The following section identifies specific risks relating to asbestos and environmental claims. There may be other classes of risk which could develop in the future and that could have a material impact on the Group's financial position.

The Group evaluates the concentration of exposures to individual and cumulative insurance risk and establishes its reinsurance policy to manage such exposure to levels acceptable to the Group.

Estimation techniques, risks, uncertainties and contingencies continued

ASBESTOS AND ENVIRONMENTAL CLAIMS

The estimation of the provisions for the ultimate cost of claims for asbestos and environmental pollution is subject to a range of uncertainties that is generally greater than those encountered for other classes of insurance business. As a result it is not possible to determine the future development of asbestos and environmental claims with the same degree of reliability as with other types of claims, particularly in periods when theories of law are in flux. Consequently, traditional techniques for estimating provisions for losses and loss adjustment expenses cannot wholly be relied upon and the Group employs specialised techniques to determine provisions using the extensive knowledge of both internal asbestos and environmental pollution experts and external legal and professional advisors.

Factors contributing to this higher degree of uncertainty include:

- The long delay in reporting claims from the date of exposure (for example, cases of mesothelioma can have a latent period of up to 40 years). This makes estimating the ultimate number of claims the Group will receive particularly difficult
- Issues of allocation of responsibility among potentially responsible parties and insurers
- Emerging court decisions and the possibility of retrospective legislative changes increasing or decreasing insurer liability
- The tendency for social trends and factors to influence court awards
- Developments pertaining to the Group's ability to recover reinsurance for claims of this nature
- For US liabilities from the Group's London market business, developments in the tactics of US plaintiff lawyers and court decisions and awards.

POTENTIAL CHANGE IN DISCOUNT RATE FOR LUMP SUM DAMAGES AWARDS

Legislative changes may affect the Group's liability in respect of unsettled claims in the use of predetermined factors used by courts to calculate compensation claims. For example, in the UK, standard formulae are used as an actuarial measure by the courts to assess lump sum damages awards for future losses (typically loss of earnings arising from personal injuries and fatal accidents). The calibration of these standard formulae can be updated by the UK Government and the Lord Chancellor may review the methodology to be applied in determining the discount rate to calculate the appropriate settlements, or the discount rate itself, in due course. A reduction in the prescribed discount rate would increase the value of future claims settlements.

POTENTIAL CREDIT RISK FOR STRUCTURED SETTLEMENTS

In Canada the Group has purchased annuities from regulated Canadian life insurers in order to pay fixed and recurring payments to certain claimants. This arrangement exposes the group to a credit risk in the event that the life insurers are unable to make these payments which is mitigated by an industry compensation scheme which in that event would assume a significant majority of the remaining outstanding obligations. The likelihood of both a Canadian regulated life insurer and the industry compensation scheme being unable to pay their obligations is considered very remote and so no provision has been recognised in respect of this risk.

ACQUISITIONS AND DISPOSALS

The Group makes acquisitions and disposals of businesses as part of its normal operations. All acquisitions are made after due diligence, which will include, amongst other matters, assessment of the adequacy of claims reserves, assessment of the recoverability of reinsurance balances, inquiries with regard to outstanding litigation and inquiries of local regulators and taxation authorities. Consideration is also given to potential costs, risks and issues in relation to the integration of any proposed acquisitions with existing Group operations. The Group will seek to receive the benefit of appropriate contractual representations and warranties in connection with any acquisition and, where necessary, additional indemnifications in relation to specific risks although there can be no guarantee that these processes and any such protection will be adequate in all circumstances. The Group may also provide relevant representations, warranties and indemnities to counterparties on any disposal. Further details of the disposals in the year are given in note 2.

These clauses are customary in such contracts and may from time to time lead to the Group receiving claims from counterparties.

CONTRACTS WITH THIRD PARTIES

The Group enters into outsourcing contracts and distribution arrangements with third parties in the normal course of its business and is reliant upon those third parties being willing and able to perform their obligations in accordance with the terms and conditions of the contracts.

LITIGATION, DISPUTES AND INVESTIGATIONS

The Group, in common with the insurance industry in general, is subject to litigation, mediation and arbitration, and regulatory, governmental and other sectoral inquiries and investigations in the normal course of its business. In addition, the Group is exposed to the risk of litigation in connection with its former ownership of the US operation. Based on current information the directors do not believe that any current mediation, arbitration, regulatory, governmental or sectoral inquiries and investigations and pending or threatened litigation or dispute will have a material adverse effect on the Group's financial position, although there can be no assurance that losses or financial penalties resulting from any current mediation, arbitration, regulatory, governmental or sectoral inquiries and investigations and pending or threatened litigation or dispute will not materially affect the Group's financial position or cashflows for any period.

REINSURANCE

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

The Group monitors the financial strength of its reinsurers, including those to whom risks are no longer ceded. Allowance is made in the financial position for non recoverability due to reinsurer default by requiring operations to provide, in line with Group standards, having regard to companies on the Group's 'Watch List'. The 'Watch List' is the list of companies which the directors believe may not be able to pay amounts due to the Group in full.

INVESTMENT RISK

The Group is exposed to market risk and credit risk on its invested assets. Market risk includes the risk of potential losses from adverse movements in market rates and prices including interest rates, equity prices, property prices and foreign exchange rates. The Group's exposure to market risks is controlled by the setting of investment limits in line with the Group's risk appetite. From time to time the Group also makes use of derivative financial instruments to reduce exposure to adverse fluctuations in foreign exchange rates and equity markets. The Group has strict controls over the use of derivative instruments.

Credit risk includes the non performance of contractual payment obligations on invested assets and adverse changes in the creditworthiness of invested assets including exposures to issuers or counterparties for bonds, equities, deposits and derivatives. Limits are set at both a portfolio and counterparty level based on likelihood of default to manage the Group's overall credit profile and specific concentrations within risk appetite. The Group's insurance investment portfolios are concentrated in listed securities with very low levels of exposure to assets without quoted market prices. The Group uses model based analysis to verify asset values when market values are not readily available.

RATING ENVIRONMENT

The ability of the Group to write certain types of insurance business is dependent on the maintenance of the appropriate credit ratings from the rating agencies. The Group has the objective of maintaining, at a minimum, single 'A' ratings. At the present time the ratings are 'A' (stable outlook) from S&P and 'A2' (negative outlook) from Moody's. A worsening in the ratings, below objective, could have an adverse impact on the ability of the Group to write certain types of general insurance business.

In assessing credit risk in relation to reinsurance and investments, the Group takes into account a variety of factors, including credit rating. If any such rating changes, or is otherwise reassessed, this has potential implications for the related exposures.

Estimation techniques, risks, uncertainties and contingencies continued

FOREIGN EXCHANGE RISK

The Group publishes consolidated financial statements in Pounds Sterling. Therefore, fluctuations in exchange rates used to translate other currencies, particularly the Danish Krone and Swedish Krona, the Euro and the Canadian Dollar, into Pounds Sterling will impact the reported consolidated financial position, results of operations and cashflows from period to period. These fluctuations in exchange rates will also impact the Pound Sterling value of, and the return on, the Group's investments.

REGULATORY ENVIRONMENT

The legal, regulatory and accounting environment is subject to significant change in many of the jurisdictions in which the Group operates, including developments in response to changes in the economic and political environment. The Group continues to monitor the developments and react accordingly.

Solvency II, the new solvency framework being introduced by the EU with effect from 1 January 2016, is intended to achieve greater harmonisation of approach across EU member states to assessing capital resources and requirements. Although there still remains some uncertainty as to the final rules, the Group is actively progressing its implementation plans and the Directors are confident the Group will continue to meet regulatory capital requirements.

The Group, and its main European insurance entities, will be seeking regulatory approval to use an internal model to calculate the Solvency Capital Requirement (SCR). There is a risk that one or more regulators may elect not to give approval for the whole, or parts of, the model. This may mean that the Group would need to use elements of the standard formula for calculating the SCR, which may be materially different to the SCR calculated using the internal model. The Group maintains close and regular dialogue with its regulators throughout the journey to internal model approval and the Directors are confident that the Group will continue to meet all future regulatory capital requirements. The Group intends to make its internal model approval application in May 2015.

Risk management

As an insurance company, the Group is in the business of actively seeking risk with a view to adding value by managing it. This section summarises the key risks to the Group and the steps taken to manage them.

As set out in the corporate governance report, the Group's Board of Directors (the 'Board') defines the risk appetite of the organisation.

The Group employs a comprehensive Risk Management System that includes a full range of risk policies, procedures, measurement, reporting and monitoring techniques and a series of stress tests and scenario analyses to ensure that the risk exposures that arise from operating the Group's business are managed appropriately.

For the purposes of managing risks, the Group classifies risks into the following categories:

- Insurance
- Credit
- Market
- Liquidity
- Operational
- Capital management.

INSURANCE RISK

Underwriting and claims risks

The Group manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling. The underwriting strategy aims to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and geography.

Pricing for the Group's products is generally based upon historical claims frequencies and claims severity averages, adjusted for inflation and modelled catastrophes trended forward to recognise anticipated changes in claims patterns. While claims remain the Group's principal cost, the Group also makes allowance in the pricing procedures for acquisition expenses, administration expenses, investment income, the cost of reinsurance and for a profit loading that adequately covers the cost of the capital.

Underwriting limits are in place to enforce appropriate risk selection criteria. The Group generally has the right not to renew individual policies, it can impose deductibles and it has the right to reject the payment of a fraudulent claim. In certain territories, legislation imposes a minimum amount for which employers can be liable for claims for compensation from employees injured at work. These liabilities are usually insured under an employer's liability (or similar) insurance policy. All policies issued by the Group comply with minimum statutory requirements.

All of the Group's underwriters have specific licences that set clear parameters for the business they can underwrite, based on the experience of the individual underwriter. Additionally, the Group has a centrally managed forum looking at Group underwriting issues, reviewing and agreeing underwriting direction and setting policy and directives where appropriate. The Group has a quarterly portfolio management process across all its business units, which provides a consistent assessment of each portfolio performance against a set of key performance indicators. Under the portfolio management system, key risk indicators are tracked to monitor emerging trends, opportunities and risks and, on an annual basis, a review forum of business and underwriting leaders undertake a detailed review of each portfolio utilising data from the quarterly reviews.

The Group has developed enhanced methods of recording exposures and concentrations of risk. This means there is greater control of exposures in high risk areas and enables a prompt response to claims from policyholders should there be a catastrophic event such as an earthquake.

Reinsurance arrangements in place include proportional, excess of loss, stop loss and catastrophe coverage. The effect of such reinsurance arrangements is that the Group should not suffer total net insurance losses beyond the Group's risk appetite in any one year.

Risk management continued

Reserve risk

The Group establishes loss reserves to account for the anticipated ultimate costs of all losses and related loss adjustment expenses (LAE) on losses that have already occurred. The Group establishes reserves for reported losses and LAE, as well as for incurred but not yet reported (IBNR) losses and unallocated loss adjustment expenses (ULAE). Loss reserve estimates are based on known facts and on interpretation of circumstances including the Group's experience with similar cases and historical claims payment trends. The Group also considers the development of loss payment trends, levels of unpaid claims, judicial decisions and economic conditions.

The Group has a Group Reserving Committee chaired by the Group Chief Financial Officer and consisting of the Group Chief Executive, Group Underwriting Director, Group Chief Actuary and Group Chief Risk Officer. A similar committee has been established in each of the Group's major operating segments. The Group Reserving Committee monitors the decisions and judgements made by the business units as to the level of reserves to be held and recommends to the Group Chief Executive and Group Chief Financial Officer who recommend to the Group Board via the Group Audit Committee for the final decision on the level of reserves to be included within the consolidated financial statements. In forming its collective judgement, the Committee considers the following information:

- An actuarial indication of ultimate losses together with an assessment of risks and possible favourable or adverse developments that may not have been fully reflected in calculating these indications. At the end of 2014 these risks and developments include: the possibility of future legislative change having retrospective effect on open claims; changes in claims settlement procedures potentially leading to future claims payment patterns differing from historical experience; the possibility of new types of claim, such as disease claims, emerging from business written several years ago; general uncertainty in the claims environment; the emergence of latent exposures such as asbestos; the outcome of litigation on claims received; failure to recover reinsurance and unanticipated changes in claims inflation
- The views of internal peer reviewers of the reserves and of other parties including actuaries, legal counsel, risk directors, underwriters and claims managers
- How previous actuarial indications have developed.

USE OF REINSURANCE

The Group is exposed to both multiple insured losses and losses arising out of a single occurrence, for example a natural peril event such as a hurricane, flood or earthquake.

All of the Group's operations are required to purchase reinsurance within agreed local reinsurance appetite parameters. The Group Corporate Centre authorises the operations' proposed treaty purchases to check that they at least meet the Group's appetite, for example the '1 in 200 year' standard for catastrophe events. Group Corporate Centre also checks to see that total Group exposures are within the limits set out above and also are consistent with the required risk based capital. In addition, local facultative arrangements may be purchased where deemed appropriate.

The Group remains primarily liable as the direct insurer on all risks reinsured, although the reinsurer is liable to the Group to the extent of the insurance risk ceded.

CREDIT RISK

Credit risk is the risk of loss of due to counterparties failing to meet all or part of their obligations. The Board Risk Committee (BRC) is responsible for ensuring that the Board approved Group credit risk appetite is not exceeded. This is done through the setting and imposition of Group policies, procedures and limits. In defining its appetite for credit risk the Group looks at exposures at both an aggregate and business unit level distinguishing between credit risks incurred as a result of offsetting insurance risks or operating in the insurance market (e.g. reinsurance credit risks and risks to receiving premiums due from policyholders and intermediaries) and credit risks incurred for the purposes of generating a return (e.g. invested assets credit risk).

Limits are set at both a portfolio and counterparty level based on likelihood of default, derived from the rating of the counterparty, to ensure that the Group's overall credit profile and specific concentrations are managed and controlled within risk appetite. Financial assets are graded according to company standards. AAA is the highest possible rating. Investment grade financial assets are classified within the range of AAA to BBB ratings. For invested assets, restrictions are placed on each of the Group's investment managers as to the level of exposure to various rating categories including unrated securities.

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

The following table provides information regarding the aggregated credit risk exposure for financial assets of the Group as at 31 December 2014:

	Credit rating relating to financial assets that are neither past due nor impaired								
	AAA £m	AA £m	A £m	BBB £m	<BBB £m	Not rated £m	Value including held for sale £m	Less: Amounts classified as held for sale £m	Total of financial assets that are neither past due nor impaired £m
Debt securities	6,068	2,122	3,331	893	94	141	12,649	(401)	12,248
Loans and receivables	36	1	1	–	3	56	97	–	97
Reinsurers' share of insurance contract liabilities	–	447	1,313	172	56	33	2,021	(129)	1,892
Insurance and reinsurance debtors	281	38	591	101	106	2,013	3,130	(143)	2,987
Derivative assets	6	7	20	–	–	13	46	–	46
Other debtors	–	–	–	–	–	343	343	(4)	339
Cash and cash equivalents	302	140	449	67	24	153	1,135	(124)	1,011

Notes:
1. The insurance and reinsurance debtors classified as not rated comprise personal policyholders and small corporate customers that do not have individual credit ratings. The overall credit risk to the Group is deemed to be low as the cover could be cancelled if payment were not received on a timely basis.

As at 31 December 2013

	Credit rating relating to financial assets that are neither past due nor impaired								
	AAA £m	AA £m	A £m	BBB £m	<BBB £m	Not rated £m	Value including held for sale £m	Less: Amounts classified as held for sale £m	Total of financial assets that are neither past due nor impaired £m
Debt securities	5,448	2,323	2,401	856	99	124	11,251	–	11,251
Loans and receivables	27	–	44	–	2	73	146	–	146
Reinsurers' share of insurance contract liabilities	–	538	1,235	202	44	1	2,020	–	2,020
Insurance and reinsurance debtors	236	38	631	140	113	2,289	3,447	–	3,447
Derivative assets	–	28	–	–	–	30	58	–	58
Other debtors	–	–	–	–	–	313	313	–	313
Cash and cash equivalents	184	321	374	106	23	154	1,162	–	1,162

With the exception of AAA rated government debt securities, the largest aggregate credit exposure does not exceed **3%** of the Group's total financial assets. Holdings of government bonds in Greece, Italy, Ireland, Spain and Portugal are **£129m** at 31 December 2014 and comprise around **1%** of the total bond portfolio (2013: around 1%). In addition to this the Group holds **£164m** of senior and subordinated bank debt and **£111m** of other corporate holdings in these countries.

Risk management continued

The Group is exposed to credit and concentrations of risk with individual reinsurers, 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 Group'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 Group Reinsurance Credit Committee oversees the management of these risks. Group standards are set such that reinsurers that have a financial strength rating of less than 'A–' with Standard & Poor's, or a comparable rating, are removed from the Group's authorised list of approved reinsurers unless the Group's internal review discovers exceptional circumstances in favour of the reinsurer. Collateral is taken to mitigate exposures, where appropriate, to acceptable levels or the size or credit quality of the exposure. At 31 December 2014 the Group held collateral against **£165m** (2013: £165m) of reinsurers' share of insurance contract liabilities.

The Group regularly monitors its aggregate exposures by reinsurer group against predetermined reinsurer group limits, in accordance with the methodology agreed by the BRC. The Group's largest reinsurance exposures to active reinsurance groups are Lloyd's, Swiss Re and Berskhire Hathaway Inc. At 31 December 2014 the reinsurance asset recoverable from these groups does not exceed **7%** of the Group's total financial assets. Stress tests are performed by reinsurer counterparty and the limits are set such that in a catastrophic event, the exposure to a single reinsurer is estimated not to exceed **4%** of the Group's total financial assets. Certain of the Group's subsidiaries are members of government mandated pools in various parts of the world. As of 31 December 2014 the largest pool (by premium volume) is Pool Re operated by the UK Government to provide terrorism cover.

There are no material financial assets that would have been past due or impaired had the terms not been renegotiated.

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 2014, excluding those assets that have been classified as held for sale.

		Financial assets that are past due but not impaired						
	Neither past due nor impaired £m	Up to three months £m	Three to six months £m	Six months to one year £m	Greater than one year £m	Financial assets that have been impaired £m	Carrying value in the statement of financial position £m	Impairment losses charged to the income statement £m
Debt securities	12,248	–	–	–	–	–	12,248	–
Loans and receivables	97	–	–	–	–	–	97	–
Reinsurers' share of insurance contract liabilities	1,892	–	–	–	–	5	1,897	(3)
Insurance and reinsurance debtors	2,987	140	20	10	17	–	3,174	(11)
Derivative assets	46	–	–	–	–	–	46	–
Other debtors	339	3	–	1	7	–	350	–
Cash and cash equivalents	1,011	–	–	–	–	–	1,011	–

As at 31 December 2013

	Neither past due nor impaired £m	Financial assets that are past due but not impaired				Financial assets that have been impaired £m	Carrying value in the statement of financial position £m	Impairment losses charged to the income statement £m
		Up to three months £m	Three to six months £m	Six months to one year £m	Greater than one year £m			
Debt securities	11,251	–	–	–	–	–	11,251	–
Loans and receivables	146	–	–	–	–	–	146	(6)
Reinsurers' share of insurance contract liabilities	2,020	–	–	–	–	6	2,026	(4)
Insurance and reinsurance debtors	3,447	97	20	15	13	1	3,593	(7)
Derivative assets	58	–	–	–	–	–	58	–
Other debtors	313	8	2	11	8	–	342	–
Cash and cash equivalents	1,162	–	–	–	–	–	1,162	–

The Group's investments comprise a broad range of financial investments issued principally in the UK, Canada and Scandinavia.

At 31 December 2014, the Group had pledged **£769m** (2013: £871m) of financial assets as collateral for liabilities or contingent liabilities. The nature of the assets pledged as collateral comprises government securities of **£711m** (2013: £801m), cash and cash equivalents of **£26m** (2013: £37m) and debt securities of **£32m** (2013: £33m). The terms and conditions of the collateral pledged are market standard in relation to letter of credit facilities.

In addition to the collateral accepted from reinsurers, the Group has accepted **£429m** (2013: £463m) in collateral. The Group is permitted to sell or repledge collateral held in the event of default by the owner. The fair value of the collateral accepted is **£429m** (2013: £463m). The terms and conditions of the collateral held are market standard. The assets held as collateral are readily convertible into cash.

At 31 December 2014, the Group had entered into short term sale and repurchase agreements for UK government securities. The Group continues to recognise the debt securities in the statement of financial position as the Group remains exposed to the risks and rewards of ownership. The carrying value of these debt securities recognised in the statement of financial position is **£300m** (2013: £300m) and the carrying value of the associated liabilities is **£299m** (2013: £300m).

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

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

Risk management continued

The following table sets out the carrying amounts of recognised financial instruments that are subject to the above agreements:

At 31 December 2014

	Amounts subject to enforceable netting arrangements					
	Effect of offsetting in statement of financial position			Related items not offset		
	Gross amounts £m	Amounts offset £m	Net amounts reported £m	Financial instruments £m	Financial collateral £m	Net amount £m
Derivative financial assets	18	–	18	(6)	–	12
Total assets	18	–	18	(6)	–	12
Derivative financial liabilities	51	–	51	(28)	(25)	(2)
Repurchase arrangements and other similar secured borrowing	299	–	299	(299)	–	–
Total liabilities	350	–	350	(327)	(25)	(2)

At 31 December 2013

	Amounts subject to enforceable netting arrangements					
	Effect of offsetting in statement of financial position			Related items not offset		
	Gross amounts £m	Amounts offset £m	Net amounts reported £m	Financial instruments £m	Financial collateral £m	Net amount £m
Derivative financial assets	52	–	52	(7)	(5)	40
Total assets	52	–	52	(7)	(5)	40
Derivative financial liabilities	22	–	22	(6)	(36)	(20)
Repurchase arrangements and other similar secured borrowing	300	–	300	(300)	–	–
Total liabilities	322	–	322	(306)	(36)	(20)

Notes:
The Group's equity derivatives are exchange traded instruments and as such the Group treats the respective intermediary are one counterparty in the above table.

Investments in structured entities

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

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

However, the Group invests in unleveraged entities created by and managed by external specialist investment managers where investments are pooled within an investment vehicle to provide a diversified exposure to particular classes of underlying investments. The use of these products allows the Group to broaden the diversification of its investment portfolio in a cost-efficient manner. The Group limits its exposures in individual structured entities to less than 20% of the total capital of the entity.

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

In addition, the Group has commitments for future undrawn subscriptions limited to the amounts set out in the subscription agreements. The Group has no obligations to provide any additional funding or other financial support to these entities. The Group has determined that its maximum exposure to structured entities is the sum of the carrying value and the undrawn commitments. These exposures at 31 December 2014 are summarised in the table below:

Class of investments	Nature of the underlying investments of the vehicle	Carrying value £m	Undrawn commitments £m	Exposure £m
Domestic mortgage backed securities	Mainly residential mortgages in Scandinavia	2,110	–	2,110
Commercial mortgage backed securities	Mainly commercial mortgages in Canada	82	–	82
Collateralised debt obligations	Structured debt security backed by bonds	136	–	136
Cash Money Market funds	Short term cash deposits	365	–	365
Other	Mainly consist of property funds	122	204	326
		2,815	204	3,019

The line items in the statement of financial position in which the items above are included are as follows:

	£m
Investments – financial assets – equity securities	160
Investments – financial assets – debt securities	2,216
Cash and cash equivalents	365
Other	74
	2,815

MARKET RISK

The Group is exposed to the risk of potential losses from adverse movements in market prices including those of interest rates, equities, property, exchange rates and derivatives.

Exposures are controlled by the setting of investment limits and managing asset-liability matching in line with the Group's risk appetite.

The Group Investment Committee (GIC), on behalf of the Group Board, is responsible for reviewing and approving the investment strategy for the Group's investment portfolios. It provides approval for all major changes of the Group's investment strategy and, in particular, approves any substantive changes to the balance of the Group's funds between the major asset classes. Importantly the GIC also approves the terms of reference of the Group's main operational investment committee, the Group Asset Management Committee (GAMC). The BRC issues GAMC with investment risk limits.

Interest rate risk

The fair value of the Group's portfolio of fixed income securities is inversely correlated to changes in the market interest rates. Thus if interest rates fall, the fair value of the portfolio would tend to rise and vice versa as set out in the sensitivity analysis on page 146.

Equity price risk

The Group's portfolio of equity securities is subject to equity risk arising from changes in market price. Thus if the value of equities rise, so will the fair value of its portfolio and vice versa as set out in the sensitivity analysis on page 146.

The Group sets appropriate risk limits to ensure that no significant concentrations in individual companies arise. The Group takes a long-term view in selecting shares and looks to build value over a sustained period of time rather than utilising high level of purchase and sales in order to generate short-term gains from its equity holdings.

Risk management continued

Property price risk

The Group's portfolio of properties is subject to property price risk arising from changes in the market value of properties. Further information on the valuation approach is included in significant accounting policies on page 123. Thus if the value of property falls so will the fair value of the portfolio as set out in the sensitivity analysis on page 146.

A number of the Group's property holdings are Group occupied and therefore are reported within property and equipment.

The Group's investment in investment property is recorded as such, and these investments are held as part of an efficient portfolio management strategy.

Currency risk

The Group operates in 27 countries. Accordingly, its net assets are subject to foreign exchange rate movements. The Group's primary foreign currency exposures are to the Danish Krone, Euro, Canadian Dollar and the Swedish Krona. If the value of Sterling strengthens then the value of non-Sterling net assets will decline when translated into Sterling and consolidated.

The Group incurs exposure to currency risk in two ways:

- Operational currency risk – by holding investments and other assets and by underwriting liabilities in currencies other than the currency of the primary environment in which the business units operate (non-functional currencies)
- Structural currency risk – by investing in overseas subsidiaries and operating an international insurance group.

Operational currency risk is managed within the Group's individual operations by broadly matching assets and liabilities by currency.

Structural currency risk is managed at a Group level through currency forward and foreign exchange option contracts within the limits that have been set. In managing structural currency risk, the needs of the Group's subsidiaries to maintain net assets in local currencies to satisfy local regulatory solvency and internal risk based capital requirements are taken into account. These assets should prove adequate to support local insurance activities irrespective of exchange rate movements. Consequently, this may affect the value of the consolidated shareholders' equity expressed in Sterling.

At 31 December 2014, the Group's total shareholders' equity analysed by currency is:

	Pounds Sterling £m	Danish Krone/Euro £m	Canadian Dollar £m	Swedish Krona £m	Other £m	Total £m
Shareholders' equity at 31 December 2014	**1,629**	**415**	**671**	**379**	**731**	**3,825**
Shareholders' equity at 31 December 2013	482	610	494	393	914	2,893

The analysis aggregates the Danish Krone exposure and the Euro exposure as the Danish Krone continues to be pegged closely to the Euro. The Group considers the aggregate exposures when reviewing its hedging strategy.

Shareholders' equity is stated after taking account of the effect of currency forward contracts and foreign exchange options. On this basis, a 10% change in Sterling against Danish Krone/Euro, Canadian Dollar or Swedish Krona would have the following impact on shareholders' equity:

	10% strengthening in Pounds Sterling against Danish Krone/Euro £m	10% weakening in Pounds Sterling against Danish Krone/Euro £m	10% strengthening in Pounds Sterling against Canadian Dollar £m	10% weakening in Pounds Sterling against Canadian Dollar £m	10% strengthening in Pounds Sterling against Swedish Krona £m	10% weakening in Pounds Sterling against Swedish Krona £m
Movement in shareholders' equity at 31 December 2014	**(37)**	**46**	**(61)**	**75**	**(34)**	**42**
Movement in shareholders' equity at 31 December 2013	(55)	67	(45)	55	(36)	44

Apart from the impact on derivative financial instruments covered below, the changes arise from retranslation of foreign subsidiaries' net asset positions from their functional currencies into Pounds Sterling, with movements being taken through the translation reserve. These movements in exchange rates therefore have no impact on profit.

Derivatives

The Group may use derivative financial instruments for the purpose of reducing its exposure to adverse fluctuations in interest rates, foreign exchange rates, equity prices and long term inflation. The Group does not use derivatives to leverage its exposure to markets and does not hold or issue derivative financial instruments for speculative purposes. The policy on use of derivatives is approved by the Board Risk Committee.

The table below sets out the fair valuation and nominal principal amount of derivatives held at 31 December.

	Remaining life			Fair value		Notional principal amounts	
	Less than one year £m	**One to five years £m**	**More than five years £m**	**2014 £m**	2013 £m	**2014 £m**	2013 £m
Cross currency							
Asset	**18**	**–**	**–**	**18**	43	**1,764**	1,974
Liability	**8**	**10**	**10**	**28**	1		
Inflation							
Asset	**–**	**–**	**28**	**28**	9	**see below**	see below
Liability	**–**	**–**	**29**	**29**	7	**see below**	see below
Equity index							
Asset	**–**	**–**	**–**	**–**	6	**see below**	see below
Liability	**–**	**–**	**–**	**–**	21	**see below**	see below

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

The Group applies hedge accounting to derivatives acquired to reduce foreign exchange risk in its net investment in certain major overseas subsidiaries. There was no ineffectiveness recognised in the income statement in respect of these hedges during 2014 or 2013.

The Group also applies hedge accounting to specified fixed interest assets in its investment portfolio. During 2014, the Group invested in a portfolio of high investment grade corporate bonds denominated in US dollars to allow it to invest in a more diversified range of issuers. These investments are used to cover the insurance liabilities in the UK business, In order to remove exchange risk from this portfolio of investments the Group also acquired cross currency interest rate swaps to swap the cashflows from the portfolio into cashflows denominated in pounds sterling. The Group applies fair value hedge accounting when using 'fixed to floating' interest rate swaps and cashflow hedge accounting when using 'fixed to fixed' interest rate swaps. The interest rate swaps exactly offset the timing and amounts expected to be received on the underlying investments. The investments have a remaining term of between two and eight years. There have been no default and no defaults are expected on the hedged investments.

The total losses on the fair value hedge instruments during 2014 and the offsetting gains on the hedged investments related to the hedged risk that were recognised in the income statement totalled **£11m** and **£8m** respectively.

The total losses recognised on the cashflow hedge instruments during 2014 in other comprehensive income was **£4m** and the amount reclassified to the income statement was **£nil**. The ineffectiveness recognised in the income statement is **£nil**.

The fair value of the derivatives included in the table above and used as hedging instruments at 31 December 2014 are an asset of **£15m** (2013: £31m) and a liability of **£22m** (2013: £1m).

Risk management continued

The Group is party to a series of swap contracts which collectively provide limited cover against a sharp increase in long term claims inflation. In total the swap contracts provide inflation cover over a nominal value of **£180m** (2013: £180m) and are split over different contract terms.

At 31 December 2013 there were derivative contracts in place to protect the value of the UK, Canadian, European, and US equity portfolios of the Group. These derivatives were closed during 2014. These derivatives provided limited protection against declines in market levels whilst also capping participation in any appreciation of the market. In total, this strategy covered an underlying equity value up to approximately £379m at 31 December 2013. If UK, Canadian, European and US equity markets decreased by 15%, the impact of these derivatives as at 31 December 2013, would have been to decrease the impact of the decline by £28m.

Sensitivity analysis

The Group 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. These stress tests combine deterministic shocks, analysis of historical scenarios and stochastic modelling using the internal capital model to inform the Group's decision making and planning process and also for identification and management of risks within the business units.

The following table provides an indication of how some of the single factor changes impact the Group.

Changes in the income statement and equity:

	Increase/(decrease) in income statement		Decrease in other comprehensive income	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Interest rate markets:[2]				
Impact on fixed interest securities of increase in interest rates of 100bps[3]	**–**	–	**(481)**	(427)
Decrease of equity markets:[4]				
Direct impact on equities of a 15% fall in equity markets	**(3)**	(6)	**(21)**	(87)
Mitigating impact arising from derivatives held	**–**	28	**–**	–
Property markets:[4]				
Decrease of property markets of 15%	**(52)**	(50)	**(8)**	(10)

Notes:
1. This analysis assumes that there is no correlation between equity price, interest rate and property market rate risks. It also assumes that all other assets and liabilities remain unchanged and that no management action is taken. This analysis does not represent management's view of future market change, but reflects management's view of key sensitivities.
2. The sensitivity of the fixed interest securities of the Group has been modelled by reference to a reasonable approximation of the average interest rate sensitivity of the investments held within each of the portfolios. The effect of movement in interest rates is reflected as a one time rise of 100bps on 1 January 2015 and 1 January 2014.
3. The impact on the fair value of the loan capital is a decrease of **£66m** (2013: £42m).
4. The effect of movements in equity and property markets is reflected as a one time decrease of worldwide equity shares and property markets on 1 January 2015 and 1 January 2014 which results in a 15% decline in the value of the Group's carrying value of these assets.
5. This analysis has not considered the impact of the above market changes on the valuation of the Group's insurance contract liabilities or retirement benefit obligations.
6. This analysis is presented gross of the corresponding tax credits/(charges).
7. This analysis excludes the sensitivites in respect of any assets held for sale.

LIQUIDITY RISK

Liquidity risk is the risk that the Group may be unable to pay obligations when due as a result of assets not being available in a form that can immediately be converted into cash. The investment risk limits set by the BRC ensure that a large part of the Group's portfolio is kept in highly liquid marketable securities sufficient to meet its liabilities as they fall due based on actuarial assessment and allowing for contingencies. The limits are monitored at a Group level as part of the Group Risk exposure monitoring and BRC reporting process.

In addition the Group has committed credit facilities available as set out in note 25.

Maturity periods or contractual repricing

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. Insurance contract liabilities are also presented and are analysed by remaining estimated duration until settlement.

As at 31 December 2014

	Less than one year £m	One to two years £m	Two to three years £m	Three to four years £m	Four to five years £m	Five to ten years £m	Greater than ten years £m	Total £m	Carrying value in the statement of financial position
Subordinated guaranteed US$ bonds	–	–	–	–	–	–	6	6	5
Perpetual guaranteed subordinated capital securities	–	–	375	–	–	–	–	375	349
Guaranteed subordinated notes due 2045	–	–	–	–	–	–	400	400	394
Guaranteed subordinated step-up notes due 2039	–	–	–	–	500	–	–	500	495
Provision for unearned premium	3,036	276	87	13	6	20	–	3,438	3,438
Provisions for losses and loss adjustment expenses	3,755	1,719	1,104	736	516	1,204	2,040	11,074	9,828
Direct insurance creditors	275	2	–	–	–	–	–	277	277
Reinsurance creditors	484	102	41	–	–	–	–	627	627
Borrowings	299	–	–	–	–	–	–	299	299
Deposits received from reinsurers	25	–	–	–	–	–	–	25	25
Derivative liabilities	38	–	1	–	8	10	–	57	57
Total	7,912	2,099	1,608	749	1,030	1,234	2,446	17,078	15,794
Interest on perpetual bonds and notes	93	93	82	68	39	105	18	498	

Risk management continued

As at 31 December 2013

	Less than one year £m	One to two years £m	Two to three years £m	Three to four years £m	Four to five years £m	Five to ten years £m	Greater than ten years £m	Total £m	Carrying value in the statement of financial position
Subordinated guaranteed US$ bonds	–	–	–	–	–	–	15	15	13
Perpetual guaranteed subordinated capital securities	–	–	–	375	–	–	–	375	342
Subordinated guaranteed perpetual notes	450	–	–	–	–	–	–	450	460
Guaranteed subordinated step-up notes due 2039	–	–	–	–	–	500	–	500	494
Provision for unearned premium	3,482	265	66	10	15	15	–	3,853	3,853
Provisions for losses and loss adjustment expenses	4,096	1,916	1,243	840	584	1,397	2,218	12,294	11,148
Direct insurance creditors	295	1	–	–	–	–	–	296	296
Reinsurance creditors	341	5	1	–	–	–	–	347	347
Borrowings	300	–	–	–	–	1	–	301	301
Deposits received from reinsurers	41	–	–	–	–	–	–	41	41
Derivative liabilities	27	2	–	–	–	–	–	29	29
Total	9,032	2,189	1,310	1,225	599	1,913	2,233	18,501	17,324
Interest on perpetual bonds and notes	109	73	73	62	48	24	7	396	

The duration analysis above is presented on an undiscounted basis. The carrying values in the statement of financial position are discounted where appropriate in accordance with Group accounting policy.

The capital and interest payable on the bonds and notes have been included until the dates on which the Group has the option to call the instruments and the interest rates are reset. For further information on the terms of the bonds and notes, see note 21 to the financial statements.

Undiscounted interest payments are calculated based on underlying fixed interest (as detailed in note 21). Year end exchange rates have been used for interest projections on loans in foreign currencies.

OPERATIONAL RISK

Operational risk is the risk of direct or indirect losses resulting from human factors, external events and inadequate or failed internal processes and systems. Operational risks are inherent in the Group's operations and are typical of any large enterprise. Major sources of operational risk can include operational process reliability, information security, outsourcing of operations, dependence on key suppliers, implementation of strategic and operational change, integration of acquisitions, fraud, human error, customer service quality, inadequacy of business continuity arrangements, recruitment, training and retention of staff, and social and environmental impacts.

The Group manages operational risk using a range of techniques and tools to identify, monitor and mitigate its operational risk in accordance with Group's risk appetite. These tools include Risk and Control Self Assessments, Key Risk Indicators (e.g. fraud and service indicators), Scenario Analyses and Loss Reporting. In addition, the Group has developed a number of contingency plans including Incident Management and Business Continuity Plans. Quantitative analysis of operational risk exposures material to the Group is used to inform decisions on the overall amount of capital held and the adequacy of contingency arrangements.

CAPITAL MANAGEMENT

Own Risk and Solvency Assessment (ORSA)

The Solvency II directive introduces a requirement for undertakings to conduct an ORSA. In anticipation of this requirement, the Group has updated its risk and capital management processes.

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
- The level of capital required to support those risks
- The actions it will take to achieve and maintain the desired levels of risk and capital.

The 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.

Capital appetite

The Group's objective is to maintain sufficient capital, which comprises shareholders' equity and subordinated loan capital, to meet its plan and objectives. This represents sufficient surpluses for both regulatory and economic capital, as well as sufficient capital to support the Group's aim of maintaining single 'A' ratings. To assist in managing its capital position, the Group has set internal target coverage ratios for each of the principal capital measures.

The Group's regulated entities hold appropriate levels of capital to satisfy applicable local regulations. In certain instances this could restrict the subsidiaries' ability to transfer funds to the UK parent where retained earnings form part of the local required regulatory capital. Additionally, regulation in certain countries in which the Group's subsidiaries operate may also impose other limitations such as foreign exchange control restrictions.

Economic capital

Economic capital is the Group's preferred measure of capital sufficiency. It is the Group's own assessment of the amount of capital it needs to hold to meet its obligations given the Group's risk appetite.

The economic capital analysis compares available capital with the economic capital assessment (ECA). Available capital is the capital (over and above the IFRS insurance liabilities) that is available to absorb losses. It includes subordinated debt, but excludes items such as goodwill and other intangible assets, deferred tax items and pension scheme surpluses and deficits. ECA is the capital required to meet liabilities at a confidence level equivalent to Standard & Poor's long-term A rated bond default curve.

	Unaudited 2014 £bn	Unaudited 2013 £bn
Available capital	**4.3**	3.1
ECA	**3.4**	2.4
ECA surplus	**0.9**	0.7

The position was favourably impacted in the year by the rights issue, capital generated including disposal gains and an improvement in expected future retained profits. This is partially offset by falling yields, strengthening sterling and model calibrations.

Risk management continued

The economic capital model is used to support, inform and improve the Group's decision making across the Group. It is used to determine the Group's optimum capital structure, its investment strategy, its reinsurance programme and to determine the pricing and target returns for each portfolio. The economic capital model is also used for the Group's Individual Capital Assessment (ICA).

REGULATORY SOLVENCY POSITION

The Group remains compliant with both the PRA's risk based ICA methodology and Solvency I, which is used to calculate the Insurance Groups Directive (IGD) requirement.

For the Group's senior regulated insurance company, Royal & Sun Alliance Insurance plc, the capital position continues to be reported under Solvency I.

As at 31 December 2014 the Group has an IGD surplus of approximately **£1.8bn** (unaudited) (2013: £0.2bn). The IGD surplus as at 31 December 2014 has benefitted from the rights issue capital generated including, disposal gains, the reversal of the gearing restriction, and a decrease in estimated requirement resulting from lower business volumes. The coverage ratio stood at **2.2 times** (unaudited) at 31 December 2014 (2013: 1.1 times).

The Group received its latest Individual Capital Guidance (based on its ICA submission) from the PRA in early 2014 and at the request of the PRA remains confidential. The ICA is a forward looking, economic assessment of the capital requirements of the Group based on its assessment of the risks to which it is exposed. The models used to determine the ICA have been integrated into the Group's business processes and are used to enhance the management of the Group.

New Solvency II, framework is discussed under the Regulatory Environment heading of the Estimation Techniques, Risks, Uncertainties and Contingencies sections of this report.

Notes to the financial statements

1. OPERATING SEGMENTS

The Group has undertaken a strategic review of its businesses and has disposed of a number of its businesses. Further information on the Group's disposal activity is disclosed in note 2.

As a result of this the Group is now organised into operating segments on the basis of core and non-core businesses with 2013 having been restated on a consistent basis. The Group's core businesses are Scandinavia, Canada, UK and Ireland, and Latin America with each operating segment managed by a member of the Group Executive Committee who is directly accountable to the Group Chief Executive and the Board of Directors (who are combined to be the chief operating decision maker). Scandinavia, Canada and UK and Ireland represent the major geographical areas in which the Group operates through established businesses in mature markets. The UK is the Group's country of domicile and one of its principle markets. Information has been provided separately for the UK and for Ireland as this represents the basis on which the information is provided to the Group Chief Executive and the Board of Directors.

The businesses classified as discontinued operations and those considered to be non-core businesses are presented separately.

The results reported in the financial statements in 2013 for UK and Western Europe included the results of the Italian business, which is now included as a discontinued operation. The results reported in 2013 for Emerging Markets included the results of Latin America. Emerging Markets have been restated to identify Latin America as a core segment. The Group's non-core business comprise Noraxis, Russia, India, UK legacy and Middle East.

The results previously presented in the 2013 financial statements have been restated onto a consistent basis in the comparative information.

All operations are engaged in providing personal and commercial general insurance services. Central functions include the Group's internal reinsurance function and Group Corporate Centre.

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

- Net written premiums
- Underwriting result
- Combined operating ratio (COR)
- Return on capital allocated.

Net written premiums is the key measure of revenue used in internal reporting. Underwriting result and COR are the key internal measures of profitability of the operating segments. The COR reflects the ratio of claims costs and expenses (including commission) to earned premiums, expressed as a percentage.

As described in the Risk Management section of the notes to the financial statements sufficient net assets are maintained by each of the Group's subsidiaries to satisfy local regulatory and internal risk based capital requirements. In addition the Group monitors the Group's total capital position at all times. Assets and liabilities are reviewed by the chief operating decision maker at the Group level, and as such are not presented at the segment level.

All of these items are measured in accordance with the Group's accounting policies. Certain items included within the Group's investment result are allocated to the operating segments based on economic capital requirements.

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

Notes to the financial statements continued

MANAGEMENT BASIS

The management basis reflects the way management monitor the business. Operating result on a management basis comprises the underwriting result, the investment result and other activities.

Major components of underwriting result are net earned premiums, other operating income, net claims incurred, acquisition costs and other underwriting costs.

There have been certain revisions made to the management basis of presentation. In 2013 the impact of the change in the discount rate on certain classes of long tail insurance liabilities was reported in the investment result. The investment result in 2014 excludes the impact of the change in discount rate of **£98m** (2013: £63m). This basis is consistent with the Group's presentation treatment of realised and unrealised gains and losses on its investments.

In 2013 the Investment expenses were reported in the central expenses, during 2014 these expense **£29m** (2013: £31m) are included in the investment result.

Other activities comprise administration expenses, and other expense of **£52m** (2013: £73m), which includes the Group share in the loss after tax of its associates of **£nil** (2013: £2m).

Segment revenue and results

Year ended 31 December 2014

	Core									
			UK and Ireland							
	Scandinavia £m	Canada (excl Noraxis) £m	UK (excluding Legacy) £m	Ireland £m	Latin America	Central Functions £m	Non-core £m	Continuing operations per income statement £m	Add discontinued operations £m	Total Group £m
Net written premiums	1,759	1,510	2,569	295	690	(42)	186	6,967	498	7,465
Underwriting result	187	30	15	(107)	(2)	(15)	(47)	61	29	90
Investment result	64	77	132	10	27	–	5	315	12	327
Insurance result	251	107	147	(97)	25	(15)	(42)	376	41	417
Other activities	–	–	–	–	–	(51)	(6)	(57)	5	(52)
Operating result (management basis)	251	107	147	(97)	25	(66)	(48)	319	46	365
Realised gains/(losses)								85	–	85
Unrealised gains/(losses), impairments and foreign exchange								14	–	14
Interest costs								(119)	–	(119)
Amortisation of intangible assets								(31)	(1)	(32)
Pension net interest and administration costs								(10)	–	(10)
Solvency II costs								(25)	–	(25)
Reorganisation costs								(106)	(4)	(110)
Impairment of goodwill and intangible assets								(99)	–	(99)
Economic assumption changes								(98)	–	(98)
Non-recurring charges								(67)	–	(67)
Acquisitions and disposals								203	174	377
Transaction costs								(6)	–	(6)
Profit before tax								60	215	275
Tax on continuing operations								(182)	–	(182)
Tax on discontinued operations								–	(15)	(15)
Tax on disposals of discontinued operations								–	(2)	(2)
(Losses)/profits after tax								(122)	198	76
Combined operating ratio (%)	89.4	98.0	99.5	132.3	100.3		126.4	98.5	94.3	98.8
Other segment items included in the income statement:										
Investment income	112	82	144	11	46		28	425	14	439
Investment expense and charges	(11)	(3)	(7)	(1)	(5)		–	(27)	(2)	(29)
Depreciation, amortisation and impairment										
	(47)	(30)	(51)	(70)	(27)		(3)	(233)	–	(233)

Notes to the financial statements continued

Year ended 31 December 2013 – (Restated)

	Core									
			UK and Ireland							
	Scandinavia £m	Canada (excl Noraxis) £m	UK (excluding Legacy) £m	Ireland £m	Latin America	Central Functions £m	Non-core £m	Continuing operations per income statement £m	Add discontinued operations £m	Total Group £m
Net written premiums	1,863	1,755	3,041	327	837	54	188	8,065	599	8,664
Underwriting result	225	(13)	13	(220)	20	2	10	37	20	57
Investment result	85	93	128	14	26	–	2	348	17	365
Insurance result	310	80	141	(206)	46	2	12	385	37	422
Other activities	–	–	–	–	–	(58)	(18)	(76)	3	(73)
Operating result (management basis)	310	80	141	(206)	46	(56)	(6)	309	40	349
Realised gains/(losses)								57	3	60
Unrealised gains/(losses), impairments and foreign exchange								(28)	–	(28)
Interest costs								(117)	–	(117)
Amortisation of intangible assets								(42)	–	(42)
Pension net interest and administration costs								(15)	–	(15)
Solvency II costs								(20)	–	(20)
Reorganisation costs								(21)	(4)	(25)
Impairment of goodwill and intangible assets								(251)	(80)	(331)
Economic assumption changes								(63)	–	(63)
Non-recurring charges								–	–	–
Acquisitions and disposals								–	–	–
Transaction costs								(12)	–	(12)
(Losses) before tax								(203)	(41)	(244)
Tax on continuing operations								(94)	–	(94)
Tax on disposals of discontinued operations								–	–	–
(Losses)/profits after tax								(297)	(41)	(338)
Combined operating ratio (%)	88.1	100.7	99.6	166.2	97.5		94.2	99.7	96.7	99.4
Other segment items included in the income statement:										
Investment income	134	100	144	14	42		30	473	20	493
Investment expense and charges	(9)	(4)	(9)	–	(6)		(1)	(29)	(2)	(31)
Depreciation, amortisation and impairment	(53)	(31)	(307)	(9)	(109)		(8)	(521)	–	(521)

No other material non cash expenses are reported internally by segment.

Net written premiums

Continuing operations	Net written premiums 2014 £m	2013 £m
Scandinavia	**1,759**	1,863
Canada (excluding Noraxis)	**1,510**	1,755
UK (excluding Legacy)	**2,569**	3,041
Ireland	**295**	327
Latin America	**690**	837
Central Functions	**(42)**	54
Non-core	**186**	188
Total continuing operations	**6,967**	8,065
Add: Discontinued operations	**498**	599
Total net written premiums	**7,465**	8,664

Net written premiums are allocated to the countries in which the business is underwritten or managed.

2. DISCONTINUED OPERATIONS AND DISPOSAL

a) Discontinued operations

As a result of the strategic action plan RSA Group announced and completed the following disposals of operations.

During 2014, the Group reached agreements to sell its Chinese subsidiary to Swiss Re Corporate Solutions (announced 3 July), its Singapore and Hong Kong branch operations to Allied World Assurance Company (announced 21 August) and its Italian branch business to ITAS Mutua (announced 17 October).

The Group completed the sales of its Eastern European operations in the Baltic states and Poland to Powszechny Zaklad Ubezpieczen sa. The sale of the business in Latvia completed on 30 June, the disposal of the operation in Poland was finalised on 15 September and those in Lithuania and Estonia each closed on 31 October. The Group also sold its Thailand associate on 19 December to LeapFrog Thailand Holdings Ltd and Mindo Asia Investments Limited. The total gains realised on these disposals was £172m after tax.

Each of these businesses has been classified as a discontinued operation in accordance with the Group's accounting policies.

Notes to the financial statements continued

The revenue, expenses and related income tax expense in 2014 and 2013 relating to these discontinued operations during the year is set out below.

Discontinued income statement

for the year ended 31 December 2014

	Note	2014 £m	2013 £m
Income			
Gross written premiums		**584**	686
Less: reinsurance premiums		**(86)**	(87)
Net written premiums		**498**	599
Change in the gross provision for unearned premiums		**17**	2
Less: change in provision for unearned premiums, reinsurers' share		**(2)**	(2)
Change in provision for unearned premiums		**15**	–
Net earned premiums		**513**	599
Net investment return	3	**14**	23
Total income		**527**	622
Expenses			
Gross Claims incurred		**(339)**	(418)
Less: claims recoveries from reinsurers		**28**	47
Net claims	4	**(311)**	(371)
Underwriting and policy acquisition costs		**(173)**	(208)
Unwind of discount		**–**	(1)
Other operating expenses	5	**(7)**	(87)
Total expenses		**(491)**	(667)
Gain on disposal	2c	**172**	–
Net share of loss after tax of associates		**5**	4
Profit/(loss) before tax		**213**	(41)
Income tax expense	6	**(15)**	–
Profit/(loss) after tax		**198**	(41)

Other comprehensive income, net of tax, from discontinued operations of **£12m** (2013:£(13)m) comprises of **£10m** unrealised gains on available for sale investments (2013: unrealised losses £(13)m; including (£(3)m of gains recycled to the income statement), less unrealised gains recycled to profit on disposal of discontinued operations of **£8m** (net of **£1m** tax) (2013: £nil) and foreign exchange gains of **£2**m (2013:£nil) and foreign exchange losses of **£8m** (2013:£nil) recycled to profit of on disposal of discontinued operations.

b) Held for Sales disposal group

	Italy £m	Singapore £m	China £m	Hong Kong £m	Total £m
Assets classified as held for sale:					
Property and equipment	–	1	–	–	**1**
Investments	222	43	46	90	**401**
Reinsurers' share of insurance contract liabilities	29	60	15	25	**129**
Insurance and reinsurance debtors	70	35	4	34	**143**
Other debtors and other assets	3	3	3	1	**10**
Cash and cash equivalents	45	45	9	25	**124**
Total assets of disposal groups	369	187	77	175	**808**
Liabilities directly associated with assets classified as held for sale:					
Insurance contract liabilities	365	136	24	146	**671**
Insurance and reinsurance liabilities	22	4	4	9	**39**
Provisions and other liabilities	–	10	2	8	**20**
Liabilities of disposal groups	387	150	30	163	**730**
Total net assets of disposal groups	(18)	37	47	12	**78**

Assets held for sale at 31 December 2013 comprised the Group's Swedish headquarters. The property was designated as held for sale following a decision to make the disposal and the sale was considered highly probable. In January 2014 the Group entered into a sale and leaseback agreement for the property and this transaction was completed in March 2014 resulting a gain of £29m.

c) Discontinued operations disposed of during the year

	Latvia £m	Lithuania £m	Estonia £m	Total Baltics £m	Poland £m	Thailand Associate £m	Total £m
Consideration received (note 1)	41	150	24	**215**	74	37	**326**
Less transaction costs	(1)	(7)	–	**(8)**	(3)	(1)	**(12)**
Net proceeds from sales	40	143	24	**207**	71	36	**314**
Carrying value of net assets disposed of	(18)	(61)	–	**(79)**	(44)	(17)	**(140)**
Gains on sale before recycling of items from other comprehensive income	22	82	24	**128**	27	19	**174**
Recycle of items from other comprehensive income on disposals							
Foreign currency translation reserve	–	(9)	–	**(9)**	(1)	2	**(8)**
Unrealised gains on available for sale investments	1	4	–	**5**	4	–	**9**
Related tax	–	–	–	**–**	(1)	–	**(1)**
Profits on sales of discontinued operations before tax	23	77	24	**124**	29	21	**174**
Tax on disposal	–	–	(2)	**(2)**	–	–	**(2)**
Profits on sales of discontinued operations after tax	23	77	22	**122**	29	21	**172**

Note:
1. Included in the consideration received are gains of £12m in respect of forward exchange contracts. The contracts were entered into at the date of announcement of the sales to reduce foreign exchange risk prior to the completion of the disposals.

Notes to the financial statements continued

d) Other business disposal completed in the year

Included within £203m of gains on disposals during the year, £164m relates to the disposal of Noraxis Capital Corporation in Canada to a subsidiary of Arthur J. Gallagher and Co and the majority of the remainder relates to assets previously held for sale within the Scandinavian region.

3. NET INVESTMENT RETURN

A summary of the gross investment income, net realised and net unrealised gains/(losses) included in the income statement is given below.

	Investment income		Net realised gains/(losses)		Net unrealised gains/(losses)		Impairments		Total investment return	
Continuing operations	**2014 £m**	2013 Restated £m	**2014 £m**	2013 Restated £m	**2014 £m**	2013 £m	**2014 £m**	2013 £m	**2014 £m**	2013 Restated £m
Investment property	**28**	28	**2**	4	**32**	9	**–**	–	**62**	41
Equity securities										
Available for sale	**18**	40	**71**	56	**–**	–	**–**	(2)	**89**	94
At fair value through the income statement	**5**	7	**(1)**	1	**(3)**	(1)	**–**	–	**1**	7
Debt securities										
Available for sale	**342**	361	**11**	9	**–**	–	**(4)**	–	**349**	370
At fair value through the income statement	**–**	–	**–**	–	**(10)**	(16)	**–**	–	**(10)**	(16)
Other investments:										
Loans secured by mortgages	**1**	1	**–**	–	**–**	–	**–**	–	**1**	1
Other loans	**1**	2	**–**	1	**–**	–	**–**	(6)	**1**	(3)
Other	**1**	4	**1**	–	**(1)**	1	**–**	–	**1**	5
Deposits, cash and cash equivalents	**29**	26	**(2)**	–	**–**	(1)	**–**	–	**27**	25
Derivatives	**1**	4	**3**	(14)	**(4)**	(10)	**–**	–	**–**	(20)
Continuing operations	**426**	473	**85**	57	**14**	(18)	**(4)**	(8)	**521**	504
Discontinued operation	**14**	20	**–**	3	**–**	–	**–**	–	**14**	23
Net investment return	**440**	493	**85**	60	**14**	(18)	**(4)**	(8)	**535**	527

The net investment return on derivatives represents the investment return on financial assets that the Group is required to classify as held for trading investments. The derivatives are used to provide a protection hedge for fair value changes of assets held within the investment portfolio and foreign currency cashflows .

During 2014 the accrued interest income on impaired financial assets was **£nil** (2013: £nil).

Direct operating expenses (including repairs and maintenance) arising from investment properties were not material in 2014 or 2013.

Unrealised gains and losses recognised in other comprehensive income for available for sale assets are as follows:

	Net unrealised gains/ (losses)		Net realised (gains)/ losses transferred to income statement		Impairments transferred to income statement		Net movement recognised in other comprehensive income	
Continuing operations	**2014 £m**	2013 Restated £m	**2014 £m**	2013 Restated £m	**2014 £m**	2013 £m	**2014 £m**	2013 Restated £m
Equity securities	**23**	58	**(71)**	(56)	**–**	2	**(48)**	4
Debt securities	**365**	(321)	**(11)**	(9)	**4**	–	**358**	(330)
Other	**(1)**	(6)	**–**	–	**–**	6	**(1)**	–
Continuing operations	**387**	(269)	**(82)**	(65)	**4**	8	**309**	(326)
Discontinued operations	**10**	(10)	**(9)**	(3)	**–**	–	**1**	(13)
Total	**397**	(279)	**(91)**	(68)	**4**	8	**310**	(339)

The £9m gain on discontinued operations has been recycled to the gain on sale of discontinued operations note 2(a).

4. NET CLAIMS

Continuing operations	**2014 £m**	Restated 2013 £m
Gross claims paid	**5,799**	5,854
Gross changes in provisions for losses and loss adjustment expenses	**(439)**	247
Reinsurance recoveries on loss and loss adjustment expenses paid	**(584)**	(436)
Reinsurers' share of change in insurance contract liabilities for claims	**294**	(66)
Continuing operations	**5,070**	5,599
Discontinued operations	**311**	371
Total net claims	**5,381**	5,970

5. PROFIT/(LOSS) BEFORE TAX

The following items have been included in arriving at the loss before tax on operations:

Other operating income

	2014 £m	Restated 2013 £m
Engineering inspection fees	**45**	46
Administration fees income	**37**	42
Instalment policy fee income	**9**	14
Other fees	**97**	112
Continuing operations	**188**	214
Discontinued operations	**–**	–
Total other operating income	**188**	214

Engineering inspection fees are ancillary to the provision of engineering insurance cover.

Notes to the financial statements continued

Other operating expenses

	2014 £m	Restated 2013 £m
Administration and other expenses	**71**	152
Investment expenses and charges	**28**	29
Amortisation of intangible assets	**26**	42
Pension administration expenses	**6**	7
Solvency II costs	**25**	20
Reorganisation costs	**106**	21
Impairment of goodwill and other intangible assets	**99**	251
Acquisition costs	**–**	12
Foreign exchange losses	**(3)**	–
Non-recurring charges	**67**	–
Continuing operations	**425**	534
Discontinued operations	**7**	87
Total other operating expenses	**432**	621

The £67m non-recurring charges primarily relates to the revisions of estimates. This includes the re-estimation of deferred acquisition costs and dilapidation provisions in respect of leasehold properties resulting in charges of £17m and £5m respectively. A review of the Group's reinsurance accounting resulted in a charge of £22m. Finally, as a result of a remediation process, better information has become available which has resulted in certain revisions to accounting estimates and a charge of £23m which predominantly relates to the Irish business.

Impairment of goodwill and other intangible assets includes impairments of goodwill in Ireland and Russia and software in the UK and Scandinavia following a wider business review.

Other lease payments

The operating lease payments recognised as an expense during the year are **£57m** (2013: £77m). The Group has no significant lease agreements that include contingent rent.

Finance costs

	2014 £m	Restated 2013 £m
Interest expense on loan capital	**112**	110
Other loan interest	**7**	7
Pension net interest costs	**4**	8
Finance costs	**123**	125

Auditor's remuneration

	2014		2013	
	Continuing £m	**Discontinued £m**	Continuing £m	Discontinued £m
Fees payable to the auditor for audit of the Company's annual accounts	**0.8**	**–**	0.8	–
Fees payable to the auditor and its associates for other services:				
The audit of the Company's subsidiaries, pursuant to legislation	**4.2**	**0.7**	3.6	0.6
Audit related assurance services	**0.7**	**–**	1.7	–
Other assurance services	**0.9**	**–**	–	–
Taxation compliance services	**–**	**–**	0.1	–
Taxation advisory services	**–**	**–**	–	–
Corporate finance services	**–**	**–**	–	–
Other services	**–**	**–**	0.4	–
	6.6	**0.7**	6.6	0.6

Employee information

Staff costs for all employees comprise:

Continuing operations	**2014 £m**	Restated 2013 £m
Wages and salaries	**875**	975
Social security costs	**121**	126
Pension costs	**95**	105
Share based payments to Directors and employees	**10**	9
Total staff costs	**1,101**	1,215
Staff costs relating to continuing operations	**1,032**	1,134
Staff costs relating to discontinued operations	**69**	81

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

Continuing operations	**2014 Number**	Restated 2013 Number
Scandinavia	**3,590**	3,646
Canada	**4,037**	4,480
UK and Ireland	**8,600**	9,238
Latin America	**3,319**	3,379
Average number of employees during the year relating to continuing operations	**19,546**	20,743
Average number of employees during the year relating to discontinued operations	**2,427**	3,129
Total average number of employees during the year	**21,973**	23,872

UK and Ireland includes staff employed in Group Corporate Centre.

Notes to the financial statements continued

6. INCOME TAX EXPENSE

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

Continuing operations	2014 £m	Restated 2013 £m
Current tax	71	139
Deferred tax	111	(45)
Total taxation attributable to continuing operations	182	94
Tax on disposal of discontinued operations	2	–
Tax on profits of discontinued operations	15	–
Taxation attributable to the Group	199	94

UK corporation tax is calculated at **21.5%** (2013: 23.2%) of the estimated assessable profit for the year. Since the Group operates around the world, it is subject to income taxes in many different jurisdictions. Taxation for jurisdictions other than the UK is calculated at the rates prevailing in those jurisdictions. Of the above taxation attributable to the Group's continuing operations **£91m** (2013: £21m) relates to UK and **£91m** (2013: £73m) to overseas.

Reconciliation of the effective tax rate

Continuing operations	2014 £m	Restated 2013 £m
Profit/(loss) before tax	60	(203)
Tax at the UK rate of 21.5% (2013: 23.2%)	13	(47)
Tax effect of:		
Income/gains not taxable	(55)	(12)
Expenses not deductible for tax purposes	24	28
Deferred tax assets not recognised	144	78
Increase/(release) of tax provided in respect of prior periods	3	(20)
Different tax rates of subsidiaries operating in other jurisdictions	51	28
Effect of change in tax rates	3	37
Other	(1)	2
Total income tax expense attributable to continuing operations	182	94
Total income tax expense attributable to discontinued operations	17	–
Income tax expense	199	94

Tax Rates

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

	2014		2013	
	Current Tax	**Deferred Tax**	Current Tax	Deferred Tax
UK	**21.5%**	**20.0%**	23.2%	20.0%
Canada	**26.6%**	**26.6%**	26.6%	26.6%
Denmark	**24.5%**	**22.0%**	25.0%	22.0%
Ireland	**12.5%**	**12.5%**	12.5%	12.5%
Sweden	**22.0%**	**22.0%**	22.0%	22.0%

7. EARNINGS PER SHARE ATTRIBUTABLE TO THE ORDINARY SHAREHOLDERS OF THE PARENT COMPANY

The earnings per ordinary share are calculated by reference to the profit attributable to the ordinary shareholders and the weighted average number of shares in issue during the year. On a basic and diluted basis these were 961,657,975 (excluding those held in Employee Stock Ownership Plan (ESOP) and Share Incentive Plan (SIP) trusts). The number of shares in issue at 31 December 2014 was 1,015,486,873 (excluding those held in ESOP and SIP trusts).

Basic

Basic earnings per share are calculated by dividing the profit attributable to the ordinary shareholders of the Parent Company by the weighted average number of ordinary shares in issue during the period, excluding ordinary shares purchased by various share trusts and held as own shares.

The number of ordinary shares in issue at 31 December 2014 and 31 December 2013 has been recalculated to recognise the impact of the rights issue in April 2014 and the subsequent share consolidation completed in June 2014. The earnings per share presented at 31 December 2014 and 31 December 2013 have been restated based on the recalculated numbers of ordinary shares in issue and the recalculated number of dilutive potential ordinary shares.

	Continuing 2014	**Discontinued 2014**	Continuing Restated 2013	Discontinued Restated 2013
Profit/(loss) attributable to the shareholders of the Parent Company (£m)	**(129)**	**198**	(306)	(41)
Less: cumulative preference dividends (£m)	**(9)**	**–**	(9)	–
Profit/(loss) for the calculation of earnings per share (£m)	**(138)**	**198**	(315)	(41)
Weighted average number of ordinary shares in issue (£'000)	**961,658**	**961,658**	815,494	815,494
Basic earnings/(loss) per share (p)	**(14.4)**	**20.6**	(38.6)	(5.1)

Notes to the financial statements continued

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Parent Company has share options and contingently issuable shares issued as awards of share based payments to employees as categories of dilutive potential ordinary shares.

The calculation is performed for the awards outstanding at 31 December to determine the number of shares that would have been issued at fair value (determined as the average annual market share price of the Parent Company's shares) based on the monetary value of the subscription rights and the awards' conditions (modified to assume vesting at 31 December) attached to outstanding dilutive potential ordinary shares. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the issue of the dilutive potential ordinary shares at the latter of the 1 January and the date the award was granted.

	2014 £m	Restated 2013 £m
Profit/(loss) for the calculation of earnings per share relating to continuing operations	**(138)**	(315)
Profit/(loss) for the calculation of earnings per share discontinued operations	**198**	(41)
Total profit/(loss) for the calculation of earnings per share	**60**	(356)
Weighted average number of ordinary shares in issue (thousands) relating to continuing operations	**961,658**	815,494
Adjustments for share options and contingently issuable shares (thousands) relating to continuing operations	**–**	–
Total weighted average number of ordinary shares for diluted earnings per share (thousands) continuing operations	**961,658**	815,494
Diluted earnings/(loss) per share (p) relating to continuing operations	**(14.4)**	(38.6)
Diluted earnings/(loss) per share (p) relating to discontinued operations	**20.6**	(5.1)

Further information of the outstanding share options and unvested share awards to Group employees that could potentially dilute basic earnings per share in the future, including those awards omitted from the calculation of diluted earnings per share because they were antidilutive in 2014 and 2013 are included in note 20.

8. DIVIDENDS

	2014 p	Restated 2013 p	2014 £m	2013 £m
Ordinary dividend:				
Final paid in respect of prior year	–	17.4	–	140
Interim paid in respect of current year	–	10.2	–	83
			–	223
Preference dividend			9	9
			9	232

The Group subsidiaries may be subject to restrictions on the amount of dividends they can pay to shareholders as a result of local regulatory requirements. However, based on the information currently available, the Group does not believe that such restrictions materially impact the ability to meet obligations or pay dividends.

At the Annual General Meeting (AGM) on 8 May 2015, a final dividend in respect of the year ended 31 December 2014 of 2p per ordinary share amounting to a total dividend of £20m is to be proposed. The proposed dividend will be paid and accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2015.

9. GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill £m	Intangible assets arising from acquired claims provisions £m	Externally acquired software £m	Internally generated software £m	Other £m	Total £m
Cost						
At 1 January 2014	766	125	211	860	355	2,317
Additions and transfers	–	–	8	50	32	90
Disposals	(171)	–	(93)	(291)	(96)	(651)
Exchange adjustment	(50)	(8)	(3)	(27)	(13)	(101)
At 31 December 2014	545	117	123	592	278	1,655
Accumulated amortisation						
At 1 January 2014	–	119	126	374	179	798
Amortisation charge	–	2	19	50	28	99
Amortisation on disposals	–	–	(66)	(94)	(52)	(212)
Exchange adjustment	–	(7)	(2)	(12)	(6)	(27)
At 31 December 2014	–	114	77	318	149	658
Accumulated impairment						
At 1 January 2014	177	–	17	222	–	416
Impairment charge	55	–	6	38	4	103
Impairment on disposal	(87)	–	(20)	(198)	–	(305)
Exchange adjustment	(12)	–	–	(5)	–	(17)
At 31 December 2014	133	–	3	57	4	197
Carrying amount at 31 December 2014	412	3	43	217	125	800
Less: Assets classified as held for sale	–	–	–	–	–	–
	412	3	43	217	125	800

Other intangible assets include customer lists, renewal rights and acquired brands.

Notes to the financial statements continued

	Goodwill £m	Intangible assets arising from acquired claims provisions £m	Externally acquired software £m	Internally generated software £m	Other £m	Total £m
Cost						
At 1 January 2013	792	123	199	758	374	2,246
Additions and transfers	12	–	14	112	13	151
Disposals	–	–	–	(2)	(6)	(8)
Exchange adjustment	(38)	2	(2)	(8)	(26)	(72)
At 31 December 2013	766	125	211	860	355	2,317
Accumulated amortisation						
At 1 January 2013	–	115	104	297	155	671
Amortisation charge	–	2	25	84	39	150
Amortisation on disposals	–	–	(1)	(1)	(3)	(5)
Exchange adjustment	–	2	(2)	(6)	(12)	(18)
At 31 December 2013	–	119	126	374	179	798
Accumulated impairment						
At 1 January 2013	72	–	2	12	–	86
Impairment charge	106	–	15	210	–	331
Exchange adjustment	(1)	–	–	–	–	(1)
At 31 December 2013	177	–	17	222	–	416
Carrying amount at 31 December 2013	589	6	68	264	176	1,103
Less: Assets classified as held for sale	–	–	–	–	–	–
	589	**6**	**68**	**264**	**176**	**1,103**

Amortisation expense of **£72m** (2013: £109m) has been charged to underwriting and policy acquisition costs with the remainder recognised in other operating expenses.

Additions of software development comprise **£8m** (2013: £14m) of external software and **£50m** (2013: £112m) of internally developed software.

As part of the Group business review, a decision has been made to refine and rationalise IT infrastructure. As a result of this decision a software impairment charge of **£44m** (2013: £221m) has been recognised within other operating expenses. In 2014 and 2013, £4m impairment was charged to underwriting and policy acquisition costs during each year.

Impairment tests for goodwill

Goodwill is allocated to the Group's cash generating units (CGUs), which are contained within the following operating segments as follows:

	2014 £m	2013 £m
Scandinavia	**146**	161
Canada	**147**	216
UK and Ireland	**31**	79
Latin America	**62**	69
Non-core	**26**	64
Total goodwill	**412**	589

When testing for impairment, the recoverable amount of a CGU is determined based on value in use calculations. These calculations use cashflow projections based on operating plans approved by management covering a three year period. Cashflows beyond this period are extrapolated using the estimated growth rates which management deem appropriate for the CGU. There has been no change in the aggregation of assets since previous review.

A number of other assumptions and estimates are involved in the application of a cashflow model to forecast operating cashflows, premium volumes, expenses and working capital requirements. Forecasts of future cashflows are based on the best estimates of future premiums, operating expenses and taxes using historical trends, general geographical market conditions, industry trends and forecasts and other available information as discussed in more detail in the strategic report section. The cashflow forecasts are adjusted by appropriate discount rates. The range of discount rates, which are post tax and reflect specific risks relating to the CGU at the date of evaluation and weighted average growth rates used in 2014 for the cash generating units within each operating segment can be shown as below:

	Discount rate		Weighted average growth rate	
	2014	2013	**2014**	2013
Scandinavia	**8%**	8%	**2%**	2%
Canada	**9%**	9% – 12%	**3%**	3%
UK and Ireland	**9% – 10%**	9%	**2%**	0% – 2%
Latin America	**11% – 29%**	12% – 24%	**8% – 14%**	3% – 15%
Non-core	**9% – 19%**	8% -13%	**5% – 14%**	3% -11%

The key assumptions used by the cash generating unit (CGU) Trygg-Hansa, with goodwill of **£106m**, within the Scandinavia region were discount rate of 8% and growth rate of 2% and by the CGU RSA Commercial, with goodwill of **£83m**, within the Canadian region were discount rate of 9% and growth rate of 3%. All other CGUs are not considered significant in comparison to the total value of goodwill.

Goodwill impairment charges of **£55m** (2013: £106m) have been recognised within other operating expenses, split between Non-core **£11m** (2013: £71m in Non-core, and £19m in Latin America) and UK and Ireland **£44m** (2013: £16m). The impairment of £11m related to the non-core business has been recognised in respect of the Group's Russian business and has arisen due to the significant increase in interest rates in Russia coupled with the current decline in oil prices; and the impairment of £44m in UK and Ireland is related to the Irish business, due to its current financial performance. The impairment details of Russia and Ireland can be shown as below:

	Russia	Ireland
Value in use	£23m	£297m
Discount rate	18.7%	10.1%
Weighted average growth rate	13.8%	2.0%

The impairment recognised for Russia fully impairs the carrying value for this business.

Sensitivity analysis

The Goodwill allocated to the Irish CGU has been impaired in order that the CGU carrying value is not greater than its value in use. Accordingly any adverse movement in the key assumptions used (terminal growth rate of 2.0% and discount rate of 10.1%) could result in further impairment of the remaining £21m of Goodwill as indicated in the table below.

	Potential impairment £m
Impairment Sensitivity	
1% decrease in terminal value growth rate	(21)
1% increase to discount rate	(21)

Notes to the financial statements continued

10. PROPERTY AND EQUIPMENT

	Group occupied property – land and buildings £m	Other £m	Total £m
Cost/valuation			
At 1 January 2014	65	333	398
Additions	–	42	42
Disposal of subsidiaries	(10)	(24)	(34)
Disposals	–	(30)	(30)
Revaluation adjustments	4	–	4
Exchange adjustment	(2)	(14)	(16)
Transfer to held for sale	–	(1)	(1)
At 31 December 2014	57	306	363
Accumulated depreciation			
At 1 January 2014	–	238	238
Depreciation charge	1	28	29
Depreciation on disposals	–	(44)	(44)
Exchange adjustment	–	(11)	(11)
At 31 December 2014	1	211	212
Carrying amount at 31 December 2014	56	95	151

	Group occupied property – land and buildings £m	Other £m	Total £m
Cost/valuation			
At 1 January 2013	153	344	497
Additions	21	18	39
Disposal of subsidiaries	–	(1)	(1)
Disposals	–	(16)	(16)
Revaluation adjustments	2	–	2
Transfer to investment property	(5)	–	(5)
Exchange adjustment	4	(12)	(8)
Transfer to assets held for sale	(110)	–	(110)
At 31 December 2013	65	333	398
Accumulated depreciation			
At 1 January 2013	–	225	225
Depreciation charge	–	34	34
Depreciation on disposals	–	(14)	(14)
Exchange adjustment	–	(7)	(7)
At 31 December 2013	–	238	238
Carrying amount at 31 December 2013	65	95	160

Other property and equipment incorporates fixtures, fittings, and other equipment.

Group occupied property was revalued on 31 December 2014 by independent valuers using the basis of valuation as set out in note 14.

Depreciation expenses of **£29m** (2013: £34m) have been charged to underwriting costs and policy acquisition costs.

The carrying amount of Group occupied property that would have been recognised had the assets been carried under the cost model at 31 December 2014 is **£42m** (2013: £58m).

The movement in the Group occupied property reserve is shown below:

	2014 £m	2013 £m
Group occupied property reserve at 1 January	**23**	22
Fair value gains	**4**	2
Transfers and disposal of subsidiaries	**(6)**	(1)
Exchange adjustment	**(1)**	–
Group occupied property reserve at 31 December	**20**	23

11. INVESTMENT PROPERTY

Investment property consists of £346m (2013: £331m) freehold and long leasehold buildings.

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

	2014 £m	2013 £m
Investment property at 1 January	**331**	340
Additions from subsequent expenditure	**–**	2
Transfer from property and equipment	**–**	5
Purchases	**22**	12
Sales	**–**	(36)
Fair value gains	**32**	9
Exchange adjustment	**(2)**	(1)
Disposal of subsidiary	**(37)**	–
Investment property at 31 December	**346**	331

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

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

Notes to the financial statements continued

12. INTERESTS IN ASSOCIATES

The Group has the following investments in associates:

	Country	Ordinary shareholding
Royal Sundaram Alliance Insurance Company Limited (see note 35)	India	26.0%
Caunce O'Hara & Company Limited	United Kingdom	39.0%
Shaw Sabey & Associates Limited	Canada	25.0%
CAB Group AB	Sweden	27.3%

Each of the associates is owned by a subsidiary of the Company, and none materially affects the results or assets of the Group.

Some associates have been omitted from this note to avoid providing particulars of excessive length. A full list of the Group's associates will be filed at Companies House.

13. FINANCIAL ASSETS

	2014 £m	2013 £m
Equity securities	**495**	862
Debt securities	**12,649**	11,251
Financial assets measured at fair value	**13,144**	12,113
Loans and receivables	**97**	146
Total financial assets	**13,241**	12,259
Less: Assets classified as held for sale		
Equity securities	**–**	–
Debt securities	**401**	–
Loans and receivables	**–**	–
Total assets classified as held for sale	**401**	–
Total financial assets net of held for sale	**12,840**	12,259

14. FAIR VALUE MEASUREMENTS RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION

Fair value measurements

The following table provides an analysis of financial instruments and other items that are measured subsequent to initial recognition at fair value as well as financial liabilities not measured at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable, as explained more fully in Significant Accounting Policies. The table does not include items not measured at fair value if the carrying value is a reasonable approximation of fair value.

	Fair value hierarchy 2014				
	Level 1 £m	Level 2 £m	Level 3 £m	Less: Assets of operations classified as held for sale £m	Total £m
Group occupied property – land and buildings	–	–	56	–	56
Investment property	–	–	346	–	346
Available for sale financial assets:					
Equity securities	322	–	129	–	451
Debt securities	12,425	204	2	(401)	12,230
Financial assets at fair value through the income statement:					
Equity securities	1	–	43	–	44
Debt securities	–	–	18	–	18
	12,748	204	594	(401)	13,145
Derivative assets:					
At fair value through the income statement	–	31	–	–	31
Designated as hedging instruments	–	15	–	–	15
Total assets measured at fair value	12,748	250	594	(401)	13,191
Derivative liabilities:					
At fair value through the income statement	–	35	–	–	35
Designated as hedging instruments	–	22	–	–	22
Total liabilities measured at fair value	–	57	–	–	57
Loan capital	–	1,424	7	–	1,431
Total value of liabilities not measured at fair value	–	1,424	7	–	1,431

Notes to the financial statements continued

	Fair value hierarchy 2013				
	Level 1 £m	Level 2 £m	Level 3 £m	Less: Assets of operations classified as held for sale £m	Total £m
Group occupied property – land and buildings	–	–	65	–	65
Investment property	–	–	331	–	331
Available for sale financial assets:					
Equity securities	757	7	63	–	827
Debt securities	11,047	167	10	–	11,224
Financial assets at fair value through the income statement:					
Equity securities	1	–	34	–	35
Debt securities	–	–	27	–	27
	11,805	174	530	–	12,509
Derivative assets:					
At fair value through the income statement	–	27	–	–	27
Designated as hedging instruments	–	31	–	–	31
Total assets measured at fair value	11,805	232	530	–	12,567
Derivative liabilities:					
At fair value through the income statement	–	28	–	–	28
Designated as hedging instruments	–	1	–	–	1
Total liabilities measured at fair value	–	29	–	–	29
Loan capital	–	1,440	17	–	1,457
Fair value of liabilities not measured at fair value	–	1,440	17	–	1,457

There were no transfers between Level 1, Level 2 and Level 3 during 2014 or 2013.

A reconciliation of Level 3 fair value measurements of financial assets is shown in the table below. There are no Level 3 financial liabilities.

	Available for sale investments		Investments at fair value through the income statement		
	Equity securities £m	Debt securities £m	Equity securities £m	Debt securities £m	Total £m
Level 3 financial assets at 1 January 2013	35	10	33	38	116
Total gains/(losses) recognised in:					
Income statement	–	–	(4)	(15)	(19)
Other comprehensive income	4	–	–	–	4
Purchases	30	–	5	3	38
Disposals	(6)	–	–	–	(6)
Exchange adjustment	–	–	–	1	1
Level 3 financial assets at 1 January 2014	63	10	34	27	134
Total losses recognised in:					
Income statement	–	–	(1)	(10)	(11)
Other comprehensive income	(2)	–	–	–	(2)
Purchases	73	–	22	–	95
Disposals	(3)	(8)	(12)	–	(23)
Exchange adjustment	(2)	–	–	1	(1)
Level 3 financial assets at 31 December 2014	**129**	**2**	**43**	**18**	**192**
Less: Assets classified as held for sale	**–**	**–**	**–**	**–**	**–**
	129	**2**	**43**	**18**	**192**

Of the total gains/(losses) for the period recognised in the income statement (shown in the reconciliation above), losses of **£11m** (2013: £19m) relates to assets held at the end of the reporting period.

Of the total gains/(losses) for the period recognised in other comprehensive income (shown in the reconciliation above), **£(2)m** (2013: £4m) relate to assets held at the end of the reporting period and is reported in movements in the revaluation reserves in the statement of changes in equity.

Group occupied property and Investment property

Group occupied properties are valued on a vacant possession basis. Investment properties are valued at their highest and best use. Group occupied properties and investment properties are classified as Level 3 assets in the fair value hierarchy.

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

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

Investment properties are valued using discounted cashflow models which takes into account the net present value of cashflows to be generated from the properties. The cashflow streams reflect the current rent (the gross rent) payable to lease expiry, at which point it is assumed that each unit will be re-let at its estimated rental value. Allowances have been made for voids and rent free periods where applicable. The appropriate rent to be capitalised is selected on the basis of the location of the building, its quality, tenant credit quality and lease terms amongst other factors.

Notes to the financial statements continued

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

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

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

Loan capital

The Group's loan capital instruments are classified as Level 2 financial liabilities with the exception of the Subordinated guaranteed US$ bonds which are classified as Level 3 financial liabilities.

The fair value measurement of these Level 2 financial liabilities is based on pricing obtained from a range of financial intermediaries who base their valuations on recent transactions of the Groups loan capital instruments and other observable market inputs such as applicable risk free rate and appropriate credit risk spreads.

The fair value measurement of the Level 3 financial liabilities is also obtained from an indicative valuation based on the applicable risk free rate and appropriate credit risk spreads.

15. REINSURERS' SHARE OF INSURANCE CONTRACT LIABILITIES

	2014 £m	2013 £m
Reinsurers' share of provisions for unearned premiums	**671**	366
Reinsurers' share of provisions for losses and loss adjustment expenses	**1,226**	1,660
Total reinsurers' share of insurance contract liabilities	**1,897**	2,026
To be settled within 12 months	**749**	976
To be settled after 12 months	**1,148**	1,050

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

	2014 £m	2013 £m
Reinsurers' share of provision for unearned premiums at 1 January	**366**	299
Premiums ceded to reinsurers	**1,391**	1,158
Reinsurers' share of premiums earned	**(1,044)**	(1,077)
Changes in reinsurance asset	**347**	81
Reinsurers' share of portfolio transfers and (disposals)/acquisitions of subsidiaries	**(8)**	(2)
Exchange adjustment	**4**	(12)
Reinsurers' share of provision for unearned premiums at 31 December	**709**	366
Less: Assets classified as held for sale	**(38)**	–
Total Reinsurers' share of provision for unearned premiums at 31 December	**671**	366

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

	2014 £m	2013 £m
Reinsurers' share of provisions for losses and loss adjustment expenses at 1 January	**1,660**	1,650
Reinsurers' share of total claims incurred	**321**	683
Total reinsurance recoveries received	**(636)**	(640)
Reinsurers' share of portfolio transfers and (disposals)/acquisitions of subsidiaries	**(14)**	(6)
Exchange adjustment	**(23)**	(56)
Other movements	**9**	29
Reinsurers' share of provisions for losses and loss adjustment expenses at 31 December	**1,317**	1,660
Less: Assets classified as held for sale	**(91)**	–
Total Reinsurers' share of provisions for losses and loss adjustment expenses at 31 December	**1,226**	1,660

16. INSURANCE AND REINSURANCE DEBTORS

	2014 £m	2013 £m
Insurance debtors comprise:		
Due from policyholders	**1,476**	1,616
Due from intermediaries	**1,634**	1,741
Total insurance debtors	**3,110**	3,357
Reinsurance debtors	**207**	236
Total insurance and reinsurance debtors	**3,317**	3,593
Less: Assets classified as held for sale	**(143)**	–
	3,174	3,593

17. OTHER DEBTORS AND OTHER ASSETS

	2014 £m	2013 £m
Derivatives designated as accounting hedging instruments	**15**	31
Other derivatives	**31**	27
Other debtors	**350**	342
Pension scheme surplus	**129**	104
Accrued interest and rent	**148**	158
Prepayments	**96**	125
Total other debtors and other assets	**769**	787
Less: Assets classified as held for sale	**(10)**	–
	759	787
To be settled within 12 months	**607**	643
To be settled after 12 months	**152**	144

Notes to the financial statements continued

18. CASH AND CASH EQUIVALENTS

The interest bearing financial assets included in cash and cash equivalents had an effective interest rate of **2.51%** (2013: 2.08%) and had an average maturity of **30** days (2013: 26 days).

	2014 £m	2013 £m
Cash and cash equivalents and bank overdrafts (as reported within the Consolidated Statement of Cashflows)	**1,135**	1,162
Less: cash and cash equivalents reported in assets held for sale	**(124)**	–
Total cash and cash equivalents	**1,011**	1,162

19. TOTAL OTHER COMPREHENSIVE INCOME

Year ended 31 December 2014

	Revaluation reserves £m	Foreign currency translation reserve £m	Retained earnings £m	Shareholders' equity £m	Non-controlling interests £m	Total equity £m
Exchange (losses)/gains net of tax	**(27)**	**(112)**	**–**	**(139)**	**2**	**(137)**
Share of associates other comprehensive expense	**–**	**–**	**–**	**–**	**–**	**–**
Fair value gains/(losses) net of tax	**252**	**–**	**(1)**	**251**	**(2)**	**249**
Pension – remeasurement of net defined benefit liability net of tax	**–**	**–**	**(7)**	**(7)**	**–**	**(7)**
Movement in property revaluation net of tax	**4**	**–**	**–**	**4**	**–**	**4**
Total other comprehensive income/(expense) for the year	**229**	**(112)**	**8**	**109**	**–**	**109**

Year ended 31 December 2013

	Revaluation reserves £m	Foreign currency translation reserve £m	Retained earnings £m	Shareholders' equity £m	Non-controlling interests £m	Total equity £m
Exchange losses net of tax	–	(116)	(10)	(126)	(4)	(130)
Share of associates other comprehensive income	(1)	–	(1)	(2)	–	(2)
Fair value losses net of tax	(257)	–	–	(257)	–	(257)
Pension – remeasurement of net defined benefit liability net of tax	–	–	17	17	–	17
Movement in property revaluation net of tax	2	–	–	2	–	2
Total other comprehensive (expense)/income for the year	(256)	(116)	6	(366)	(4)	(370)

20. SHARE CAPITAL

The issued share capital of the Parent Company is fully paid and consists of two classes; ordinary shares with a nominal value of £1.00 each and preference shares with a nominal value of £1.00 each. The issued share capital at 31 December 2014 is:

	2014 £m	2013 £m
Issued and fully paid		
1,015,486,873 ordinary shares of £1 each (2013: 3,681,798,995 ordinary shares of 27.5p each)	**1,015**	1,012
125,000,000 preference shares of £1 each (2013: 125,000,000 preference shares of £1 each)	**125**	125
	1,140	1,137

The Parent Company issued 1,380,976,863 ordinary shares for 56 pence each under a three-for-eight rights issue on 9 April 2014. Total proceeds of the rights issue were £773m (£747m net of expenses). All new shares issued rank pari passu with those already in issue.

Following the passing of a shareholder resolution at the Company's 2014 Annual General Meeting, in May 2014 the Company sub-divided its 27.5p ordinary shares into one ordinary share of 20p carrying the same rights and restrictions as a 27.5p ordinary share, and one 7.5p deferred share with restricted rights. Immediately, thereafter the 20p ordinary shares were consolidated on the basis of five 20p ordinary shares into one new ordinary share of £1.00 carrying the same rights as a 20p ordinary share. In June 2014 all the 7.5p deferred shares were purchased for an aggregate payment of one penny and subsequently cancelled in accordance with the rights attaching to this share class. The capital equivalent of the cancelled 7.5p deferred shares of £381m is being held in a non distributable capital redemption reserve.

During 2014, the Company issued a total of **6,150,197** new ordinary shares of 27.5p each and 1,701,662 ordinary shares of £1 each ranking pari passu with ordinary shares in issue (2013: 85,847,680 new ordinary shares of 27.5p each), on the exercise of employee share options and in respect of employee share awards and under the scrip dividend scheme. The number of ordinary shares in issue, their nominal value and the associated share premiums are as follows.

	Number of shares	Nominal value £m	Share premium £m
At 1 January 2013	3,595,951,315	989	717
Issued in respect of employee share options and employee share awards	19,961,699	5	5
Issues in lieu of dividends as previously reported	65,885,981	18	(18)
At 1 January 2014	**3,681,798,995**	**1,012**	**704**
Issued for cash – rights issue (ordinary shares of 27.5p each)	**1,380,976,863**	**380**	**367**
Issued in respect of employee share options and employee share awards (ordinary shares of 27.5p each)	**6,150,197**	**2**	**4**
Ordinary shares of £1 each	**1,701,662**	**2**	**–**
Share consolidation/Transfer to capital redemption reserve	**(4,055,140,844)**	**(381)**	**–**
At 31 December 2014	**1,015,486,873**	**1,015**	**1,075**

Notes to the financial statements continued

Rights attaching to the shares

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

Ordinary Shares of £1.00 each

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

Preference Shares of £1.00 each

The preference shares are not redeemable but the holders of the preference shares have preferential rights over the holders of ordinary shares in respect of dividends and of the return of capital in the event of the winding up of the Parent Company.

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

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

Employee share schemes

1,202,271 ordinary shares (2013[1]: 1,241,339 ordinary shares) are held by various employee share trusts which may subsequently be transferred to employees (including Executive Directors) to satisfy options exercised under the Group employee share option plans and shares awards vesting to Group employees under the long term incentive plans and under the Sharebuild. These shares are presented as own shares.

At 31 December 2014, the total number of options over ordinary shares outstanding under the Group employee share option plans is 7,866,932 (2013: 10,391,058) and the total number of potential shares outstanding under the long term incentive plan and under the Sharebuild is 14,299,045 ordinary shares (2013[1]: 14,737,585 ordinary shares). Further information on the employee share schemes is provided in note 30 and in the remuneration report within the corporate governance section.

1. Comparative restated for bonus element of rights issue and share consolidation

21. LOAN CAPITAL

	2014 £m	2013 £m
Subordinated guaranteed US$ bonds	**5**	13
Guaranteed Subordinated Step-up Notes due 2039	**495**	494
Guaranteed Subordinated Notes due 2045	**394**	–
Total dated loan capital	**894**	507
Perpetual Guaranteed Subordinated Capital Securities	**349**	342
Guaranteed Perpetual Subordinated Notes	**–**	460
Total loan capital	**1,243**	1,309

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

The dated guaranteed subordinated step-up notes were issued on 20 May 2009 at a fixed rate of 9.375%. The nominal £500m bonds have a redemption date of 20 May 2039. The parent company has the right to repay the notes on specific dates from 20 May 2019. If the notes are not repaid on that date, the rate of interest would be reset at a rate of 8.475% plus the appropriate benchmark gilt for a further five year period.

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

The perpetual guaranteed subordinated capital securities issued on 12 May 2006 have a nominal value of £375m and the rate of interest payable is 6.701% of the nominal value. The Group has the option to repay the bonds on specific dates starting 12 July 2017. If the bonds are not repaid, from that date, the interest payable would be LIBOR plus 2.51%.

The guaranteed perpetual subordinated notes were redeemed in full on 8 December 2014.

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

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

The aggregate fair value of total loan capital at 31 December 2014 is **£1,431m** (2013: £1,457m).

22. NON CONTROLLING INTERESTS

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

	NCI shares at 31 December 2014			100% shares of:		
	%	Share of net assets £m	Share of profit after tax £m	NWP £m	Insurance contract liabilities £m	Gross assets £m
Royal & Sun Alliance (Middle East) Ltd	**50%**	**80**	**6**	146	255	421
British Aviation Insurance Company Limited	**43%**	**16**	**–**	–	13	36

Royal & Sun Alliance (Middle East) Ltd owns 50% of the ordinary share capital of Al Alimaya for Cooperative Insurance Company, a company operating in the Kingdom of Saudi Arabia and 70% of AlAhlia Insurance Company, a company operating in the Sultanate of Oman.

During 2014 the dividends paid to the non-controlling interests in the Middle East was **£2m**.

23. INSURANCE CONTRACT LIABILITIES

	2014 £m	2013 £m
Provision for unearned premiums	**3,601**	3,853
Provisions for losses and loss adjustment expenses	**10,336**	11,148
Total insurance contract liabilities	**13,937**	15,001
Less: Liabilities classified as held for sale	**671**	–
Total insurance contract liabilities net of held for sale	**13,266**	15,001

The provision for unearned premiums is shown net of deferred acquisition costs of **£787m** (2013: £934m). The movement in deferred acquisition costs during 2014 is attributed to **£1,084m** (2013: £1,266m) acquisition costs deferred during the year, **£1,079m** (2013: £1,224m) amortisation charged during the year, **£31m** exchange losses (2013: £39m exchange losses), **£26m** (2013: nil) reduction due to disposal, **£23m** (2013: £7m) reduction due to other movements and **£67m** (2013:nil) reduction due to assets transferred to held for sale.

The reinsurers' share of deferred acquisition costs is included within accruals and deferred income.

Notes to the financial statements continued

Provision for unearned premiums, gross of acquisition costs

	2014 £m	2013 £m
Provision for unearned premiums at 1 January	**4,787**	4,790
Premiums written	**8,858**	9,822
Less: premiums earned	**(8,917)**	(9,671)
Changes in provision for unearned premiums	**(59)**	151
Gross portfolio transfers and acquisitions	**(129)**	(1)
Exchange adjustment	**(142)**	(153)
Other movements	**(69)**	–
Provision for unearned premiums (gross of acquisition costs) at 31 December	**4,388**	4,787
Less: Liabilities classified as held for sale	**163**	–
	4,225	4,787

Provisions for losses and loss adjustment expenses

The following changes have occurred in the provisions for losses and loss adjustment expenses during the year:

	2014 £m	2013 £m
Provisions for losses and loss adjustment expenses at 1 January	**11,148**	11,002
Gross claims incurred and loss adjustment expenses	**5,699**	6,653
Total claims payments made in the year net of salvage and other recoveries	**(6,150)**	(6,427)
Gross portfolio transfers, acquisitions and disposals	**(116)**	2
Exchange adjustment	**(444)**	(267)
Other movements	**199**	185
Provisions for losses and loss adjustment expenses at 31 December	**10,336**	11,148
Less: Liabilities classified as held for sale	**508**	–
	9,828	11,148

Assumptions

The total value of provisions for losses and loss adjustment expenses less related reinsurance recoveries before discounting is **£9,463m** (2013: £9,998m).

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

		Discount rate		Average number of years to settlement from reporting date	
	Category	**2014 %**	2013 %	**2014 Years**	2013 Years
UK	Asbestos and environmental	**4.0**	4.0	**11**	11
Scandinavia	Disability	**1.3**	3.7	**6**	5

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

Given the decline in market yields for the assets held backing the long-tail liabilities in Sweden and Denmark, the discount rate in Scandinavia decreased from 3.7% in 2013 to 1.3% in 2014.

As at 31 December 2014, the value of the discount on net reserves is **£444m** (2013: £510m) excluding annuities and periodic payment orders. All other factors remaining constant, a decrease of 1% in the discount rates would reduce the value of the discount by approximately £100m. A decrease of 1% in the real discount rate for UK and Scandinavia annuities would reduce the value of the discount by approximately £90m. The sensitivity calculation has taken into consideration the undiscounted reserves for each class of business and the respective average settlement period.

Claims development tables

The tables below present changes in the historical provisions for losses and loss adjustment expenses that were established in 2004 and the provisions for losses and loss adjustment expenses arising in each subsequent accident year. The tables are presented at current year average exchange rates on an undiscounted basis and have been adjusted for operations that have been disposed of.

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

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

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

Notes to the financial statements continued

Consolidated claims development table gross of reinsurance

	2004 and prior £m	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	**2014 £m**	Total £m
Estimate of cumulative claims												
At end of accident year	10,157	2,685	2,395	2,704	2,606	2,466	3,291	2,969	2,937	3,166	**2,945**	
One year later	10,143	2,611	2,404	2,696	2,605	2,523	3,276	3,013	2,959	3,222		
Two years later	10,265	2,508	2,307	2,666	2,572	2,486	3,243	3,047	2,947			
Three years later	9,979	2,386	2,235	2,596	2,526	2,444	3,282	2,971				
Four years later	9,596	2,316	2,184	2,550	2,516	2,467	3,267					
Five years later	9,519	2,256	2,183	2,531	2,478	2,467						
Six years later	9,400	2,237	2,132	2,525	2,467							
Seven years later	9,218	2,210	2,101	2,514								
Eight years later	9,118	2,182	2,080									
Nine years later	9,146	2,177										
Ten years later	9,029											
Claims paid												
One year later	2,254	1,129	951	1,200	1,273	1,216	1,882	1,397	1,391	1,521		
Two years later	1,227	329	354	402	392	414	463	487	501			
Three years later	862	187	192	266	250	260	299	319				
Four years later	694	144	179	170	183	193	219					
Five years later	511	110	118	137	119	146						
Six years later	476	86	76	83	69							
Seven years later	269	37	59	37								
Eight years later	205	23	31									
Nine years later	304	13										
Ten years later	269											
Cumulative claims paid	**7,071**	**2,058**	**1,960**	**2,295**	**2,286**	**2,229**	**2,863**	**2,203**	**1,892**	**1,521**		
Reconciliation to the statement of financial position												
Current year provision before discounting	1,958	119	120	219	181	238	404	768	1,055	1,701	**2,945**	9,708
Exchange adjustment to closing rates												(154)
Discounting												(493)
Annuities												767
Present value recognised in the consolidated statement of financial position												**9,828**

Consolidated claims development table net of reinsurance

	2004 and prior £m	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	**2014 £m**	Total £m
Estimate of cumulative claims												
At end of accident year	8,034	2,210	2,242	2,282	2,360	2,222	2,311	2,575	2,636	2,769	**2,556**	
One year later	7,860	2,088	2,213	2,282	2,340	2,253	2,329	2,571	2,660	2,863		
Two years later	7,981	2,011	2,121	2,254	2,327	2,219	2,320	2,560	2,644			
Three years later	7,768	1,938	2,045	2,192	2,291	2,192	2,351	2,511				
Four years later	7,540	1,860	1,997	2,150	2,273	2,214	2,360					
Five years later	7,409	1,804	1,975	2,132	2,247	2,221						
Six years later	7,253	1,780	1,943	2,132	2,228							
Seven years later	7,073	1,755	1,919	2,121								
Eight years later	6,971	1,730	1,904									
Nine years later	6,960	1,727										
Ten years later	7,024											
2014 movement	**(64)**	**3**	**15**	**11**	**19**	**(7)**	**(9)**	**49**	**16**	**(94)**		**(61)**
Less: margin release/(build)	21	2	15	7	11	6	2	23	(5)	(89)		(7)
Discounting	(19)	–	–	(1)	(1)	(1)	–	2	–	(2)		(22)
2014 movement ex margin	**(62)**	**1**	**–**	**3**	**7**	**(14)**	**(11)**	**28**	**21**	**(7)**		**(34)**
Claims paid												
One year later	1,687	840	872	992	1,136	1,116	1,207	1,196	1,238	1,347		
Two years later	976	263	318	328	339	348	380	401	408			
Three years later	608	150	171	238	230	232	231	261				
Four years later	557	127	160	146	173	183	181					
Five years later	407	96	106	124	103	126						
Six years later	320	74	77	67	68							
Seven years later	190	37	54	36								
Eight years later	177	22	30									
Nine years later	253	11										
Ten years later	222											
Cumulative claims paid	5,397	1,620	1,788	1,931	2,049	2,005	1,999	1,858	1,646	1,347		
Current year provision before discounting	1,627	107	116	190	179	216	361	653	998	1,516	**2,556**	8,519
Exchange adjustment to closing rates												(146)
Discounting												(444)
Annuities												673
Present value recognised in the statement of financial position												**8,602**
Held for sale												417
Total Group												9,019

Notes to the financial statements continued

24. INSURANCE AND REINSURANCE LIABILITIES

	2014 £m	2013 £m
Direct insurance creditors	300	296
Reinsurance creditors	643	347
Total insurance and reinsurance liabilities	943	643
Less: Liabilities classified as held for sale	(39)	–
	904	643

25. BORROWINGS

The Group's borrowings of **£299m** (2013: £301m) primarily relate to loans from credit institutions under a repurchase agreement. Further information is contained in the risk management section.

At 31 December 2014 total unsecured loans from credit institutions under committed credit facilities of **£500m** (2013: £500m) are available to the Group. There are no amounts outstanding at 31 December 2014 (2013: £nil). The facility expires in 2017.

At 31 December 2014 the Group has in place a **US$1bn** (2013: US$1bn) Euro commercial paper programme. There are no amounts outstanding at 31 December 2014 (2013: £nil).

The Articles of Association of the Company defines a cap on borrowing limits. This cap is not being amended at the 2015 AGM. At 31 December 2014 the cap on borrowing limits is **£4,958m** (2013: £3,457m) of which **£1,580m** (2013: £1,641m) had been utilised.

26. CURRENT AND DEFERRED TAX

Current Tax

	Asset		Liability	
	2014 £m	2013 £m	2014 £m	2013 £m
To be settled within 12 months	10	40	31	19
To be settled after 12 months	11	20	52	38
Net current tax position at 31 December	21	60	83	57
Less: Assets classified as held for sale	–	–	–	–
	21	60	83	57

Deferred Tax

	2014 £m	2013 £m
Deferred tax assets	180	302
Deferred tax liabilities	(62)	(82)
Net deferred tax position at 31 December	118	220
Less: Assets classified as held for sale	–	–
	118	220

The following are the major deferred tax assets and liabilities recognised by the Group and their movements during the year:

	2014 £m	2013 £m
Net unrealised gains on investments	(6)	3
Claims equalisation and other catastrophe reserves	(78)	(101)
Intangibles capitalised	(27)	(40)
Deferred acquisition costs	(31)	(32)
Tax losses and unused tax credits	90	221
Other deferred tax reliefs	19	28
Net insurance contract liabilities	2	3
Retirement benefit obligations	26	40
Provisions and other temporary differences	123	98
Net deferred tax position at 31 December	118	220
Less: Assets classified as held for sale	–	–
	118	220

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

	2014 £m	2013 £m
Net deferred tax position at 1 January	220	146
Amounts (charged)/credited to income statement	(111)	67
Amounts credited to other comprehensive income	9	38
Amounts charged to equity	(3)	(2)
Net arising on acquisition/disposal of subsidiaries and other transfers	5	2
Exchange adjustments	(2)	(5)
Effect of change in tax rates – income statement	–	(21)
– other comprehensive income	–	(4)
– equity	–	(1)
Net deferred tax position at 31 December	118	220
Less: Assets classified as held for sale	–	–
	118	220

Notes to the financial statements continued

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

	Current Tax		Deferred Tax		Total	
	2014 £m	2013 £m	**2014 £m**	2013 £m	**2014 £m**	2013 £m
Exchange gains and losses	**–**	1	**–**	–	**–**	1
Fair value gains and losses	**(67)**	35	**7**	47	**(60)**	82
Remeasurement of net defined benefit pension liability	**–**	–	**2**	(13)	**2**	(13)
Total credited/(charged) to other comprehensive income	**(67)**	36	**9**	34	**(58)**	70

The aggregate current tax and deferred tax relating to items that are charged directly to equity is **£(1)m** (2013: £(1)m).

At the end of the reporting period, the Group's continuing operations have unused tax losses of **£2,450m** (2013: £2,679m) and unused tax credits of **£16m** (2013: £16m) available for offset against future profits. A deferred tax asset of **£90m** (2013: £221m) has been recognised in respect of losses and unused tax credits. No deferred tax asset has been recognised in respect of **£2,000m** (2013: £1,598m) tax losses and unused tax credits of **£16m** (2013: £13m) due to the unpredictability of future profit streams. Tax losses include **£32m** (2013: £146m) which will expire between 2015 and 2032, of which **£26m** (2013: £59m) have been recognised for deferred tax. Other tax losses and unused credits may be carried forward indefinitely.

In addition, the Group has recognised a deferred tax asset of **£18m** (2013: £28m) in respect of other deferred tax reliefs of **£549m** (2013: £449m). No deferred tax has been recognised in respect of **£456m** (2013: £361m) of these reliefs due to the unpredictability of future profits streams.

The Group has temporary differences in respect of the retained earnings of overseas subsidiaries and associates of **£1,093m** (2013: £903m) on which overseas taxes, including withholding taxes, might be incurred on the remittance of these earnings to the UK. The Group is able to control the remittance of earnings to the UK and there is no intention to remit any such earnings in the foreseeable future if the remittance would trigger a material incremental tax liability. As such the Group has not recognised any deferred tax in respect of the potential taxes on the temporary differences arising on unremitted earnings of overseas subsidiaries and associates.

Net deferred tax assets of **£123m** (2013: £233m), that relate to tax jurisdictions in which the Group has suffered a loss in either the current or preceding period, have been recognised on the basis that future taxable profits will be available against which these can be utilised. The evidence for the future taxable profits is a forecast consistent with the three-year operational plans prepared by the relevant businesses, which are subject to internal review and challenge. Where relevant, the forecast includes extrapolations of the operational plans using assumptions consistent with those used in the plans.

27. PROVISIONS

	2014 £m	2013 £m
Pensions and post retirement obligations	**227**	269
Reorganisation provisions	**16**	3
Other provisions	**96**	94
Total provisions at 31 December	**339**	366
Less: Liabilities classified as held for sale	**(1)**	–
	338	366

Of the above, **£252m** (2013: £304m) is due to be settled outside of 12 months.

Other provisions includes **£20m** (2013: £18m) held relating to vacant property leases, dilapidations and refurbishments, the costs relating to which will be borne across the period over which the leases expire, which is up to 20 years, and Motor Insurance Bureau provisions of **£13m** (2013: £15m).

See note 29 for further information regarding the pensions and post-retirement benefit obligations.

Movements during the year on reorganisation and other provisions

	Reorganisation provisions £m	Other provisions £m
Provisions at 1 January 2014	3	94
Exchange adjustment	(1)	(2)
Credited	43	72
Utilised	(23)	(64)
Released	(6)	(18)
Acquisition of subsidiary undertaking	–	11
Provisions at 31 December 2014	16	93
Less: Liabilities classified as held for sale	–	–
	16	93

28. OTHER LIABILITIES

	2014 £m	2013 £m
Deposits received from reinsurers	25	41
Derivatives designated as accounting hedges	22	1
Other derivatives	35	28
Other creditors	530	585
Accruals and deferred income	567	502
Total other liabilities	1,179	1,157
Less: Liabilities classified as held for sale	(19)	–
	1,160	1,157
To be settled within 12 months	854	1,062
To be settled after 12 months	306	95

29. RETIREMENT BENEFIT OBLIGATIONS

The Group operates defined contribution pension schemes, funded and unfunded defined benefit pension schemes, and has other post-retirement obligations.

Defined contribution pension schemes

Costs of **£62m** (2013: £68m) were recognised in respect of defined contribution schemes by the Group. The Group's Swedish subsidiaries are part of a multi-employer defined benefit scheme along with other financial institutions in Sweden. As it is not possible to determine the assets and liabilities in respect of any one employer under this scheme, it is included in these accounts as a defined contribution scheme. Contributions of **£9m** (2013: £11m) were paid to this scheme during 2014 and are included in the costs shown above. The expected contributions in 2015 are £9m. Total estimated contributions to the scheme from all employers in 2014 were £52m. The latest information regarding the funding of this scheme is taken from the interim report for the first half of 2014, when the scheme funding rate was **110%** (2013: 114%).

Notes to the financial statements continued

Defined benefit pension schemes and other post retirement benefits

The major defined benefit pension schemes are located in the UK. The assets of these schemes are mainly held in separate trustee administered funds.

The UK defined benefit schemes were effectively closed to new entrants in 2002.

Two of the three main UK schemes merged in 2014, creating two main UK schemes.

The profile of the members of the two main UK schemes at 30 September 2014 (the latest date at which full information is available) is as follows:

	Number
Active members – members in employment with the Group and accruing benefits	2,504
Deferred members – members no longer accruing and not yet receiving benefits	26,419
Pensioners – members and dependants receiving benefits	17,282
Total members at 30 September 2014	**46,205**

Active members of the schemes accrue additional benefits in each year based on salaries (subject to a salary cap) in that year. Employees are entitled to join the stakeholder pension scheme for earnings above the cap.

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

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

The UK schemes are managed through trusts with independent trustees responsible for the safeguard of the interests of all members. The trustees meet regularly with Group management to discuss the funding position and any proposed changes to the schemes. The schemes are regulated by The Pension Regulator. Each scheme is subject to triennial valuations, which are used to determine the future funding of the schemes by the Group including funding to repair any funding deficit. The effective date of the most recent valuations of the three main UK funds is 31 March 2012.

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

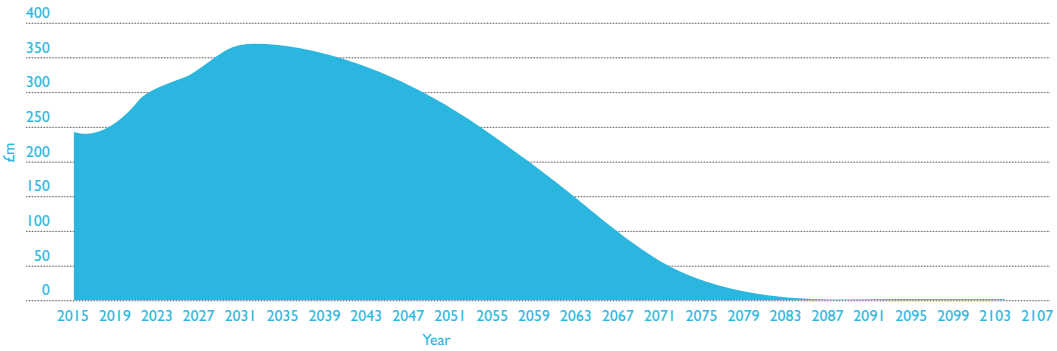
During 2009 the Group entered into arrangements that provide coverage against longevity risk for 55% of the retirement obligations relating to pensions in payment of the two largest UK schemes at that time. The arrangement provides for reimbursement of the covered pension obligations in return for the contractual return receivable on portfolios of assets (including some interest rate swaps) held by the pension funds at the inception of the arrangement. The arrangement is accounted for as a longevity swap. The pension schemes continue to hold the original assets used to fund the arrangements.

At the most recent funding valuations, the main UK funds had an aggregate funding deficit of £477m, equivalent to a funding level of 93%. The Group and the Trustees agreed funding plans at that time to eliminate the funding deficits by 2022. Details of the deficit contributions paid in 2013 and 2014 and that are due to be paid in 2015 under these plans are disclosed below. The funding plans will be reviewed again following the next triennial funding valuations which will have an effective date of 31 March 2015.

The Scheme Actuaries also carry out interim assessments on an annual basis and at the last update as at 31 March 2014 the funding level was estimated to have increased to 97%. This update is not formally agreed between the Group and the Trustees but reflects changes in market conditions and the deficit contributions paid.

For the two main UK defined benefit schemes, the level of contributions in 2014 were **£93m** (2013: £92m) of which **£64m** (2013: £65m) were additional contributions in line with the plan to reduce funding deficits. Expected contributions to the two schemes for the year ending 31 December 2015 are approximately £82m including £65m of additional contributions to reduce the deficit.

The maturity profile of the undiscounted cash flows of the two main UK schemes is shown below:



The weighted average duration of the defined benefit obligation of the two main UK schemes at the end of the reporting period is 17 years.

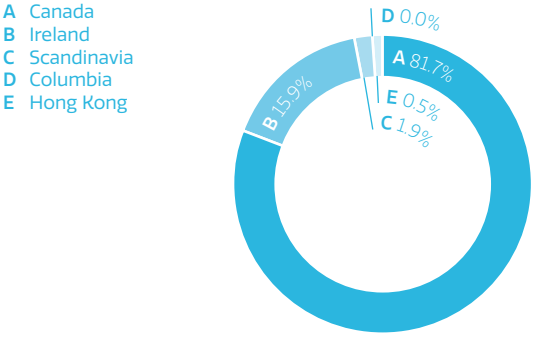
The 2002 Scheme (which was the scheme to which new UK employees had been admitted following the closure of the main defined benefit schemes) has been closed to further accrual from 1 January 2006. It has been replaced by a stakeholder arrangement and members of the 2002 Scheme and future new employees in the UK now accrue future benefits on a defined contribution basis under the stakeholder pension scheme.

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

The Group also provides post retirement healthcare benefits to certain current and retired Canadian employees. The benefits are not prefunded. Life insurance benefits, which provide varying levels of coverage, are provided at no cost to retirees. Healthcare benefits, which also provide varying levels of coverage, require retiree contributions in certain instances and benefits are generally payable for life.

The split of post retirement liabilities across other countries is shown below.

NON UK LIABILITY SPLIT BY COUNTRY



Notes to the financial statements continued

The estimated discounted present values of the accumulated obligations are calculated in accordance with the advice of independent, qualified actuaries.

Movement in (deficit)/surplus during the year:

	2014 £m	2013 £m
Deficit at 1 January	(165)	(274)
Current service costs	(29)	(32)
Past service costs	(4)	(5)
Pension net interest cost	(4)	(8)
Administration costs	(6)	(7)
Gains on settlements/curtailments	–	–
Total pension expense	(43)	(52)
Contributions by the Group	114	122
Return on scheme assets less amounts included in pension net interest cost	821	257
Effect of changes in financial assumptions	(862)	(190)
Effect of changes in demographic assumptions	4	(34)
Experience gains and losses	37	1
Investment expenses	(9)	(4)
Remeasurements of net defined benefit liability	(9)	30
Exchange adjustment	5	8
Disposal/(acquisition) of subsidiary	–	1
Pension and post retirement deficit	(98)	(165)
Deferred tax in respect of net pension and post retirement deficit	26	40
Net pension and post retirement deficit at 31 December	(72)	(125)

The value of scheme assets and the scheme obligations are as follows:

	2014			2013
	UK £m	Other £m	Total £m	Total £m
Present value of funded obligations	7,044	422	7,466	6,610
Present value of unfunded obligations	8	124	132	121
Present value of obligations	7,052	546	7,598	6,731
Equities	965	143	1,108	1,200
Government debt	4,047	145	4,192	3,225
Non-government debt	2,140	115	2,255	1,940
Derivatives	698	–	698	265
Other (including infrastructure, commodities, hedge funds, loans)	–	–	–	–
Securities with quoted market price in an active market	7,850	403	8,253	6,630
Property	199	–	199	142
Cash	63	4	67	66
Other (including infrastructure, commodities, hedge funds, loans)	506	–	506	518
Other investments	768	4	772	726
Value of asset and longevity swaps	(1,525)	–	(1,525)	(790)
Total assets in the schemes	7,093	407	7,500	6,566
Total deficit	41	(139)	(98)	(165)
Defined benefit pension schemes	41	(76)	(35)	(111)
Other post-retirement benefits	–	(63)	(63)	(54)
Schemes in surplus (note 17)	127	2	129	104
Schemes in deficit (note 27)	(86)	(141)	(227)	(269)

The UK pension schemes do not hold any of the Group's own transferable financial instruments as plan assets, and no property held by the schemes is occupied by the Group.

Notes to the financial statements continued

The following is a reconciliation of the Group's retirement benefit obligations:

	2014 £m	2013 £m
Retirement benefit obligation at 1 January	**6,731**	6,492
Current service costs	**29**	32
Past service costs and losses arising from settlements	**4**	5
Interest cost	**305**	274
Contributions by scheme participants	**1**	2
Actuarial losses	**821**	223
Gains on curtailments	**(8)**	–
Payments from the schemes	**(267)**	(263)
(Disposal)/acquisition of subsidiary	**–**	(1)
Exchange rate adjustment	**(18)**	(33)
Retirement benefit obligations at 31 December	**7,598**	6,731

The following is a reconciliation of the Group's pension schemes' assets:

	2014 £m	2013 £m
Pension schemes' assets at 1 January	**6,566**	6,218
Return on schemes' assets included in pension net interest cost	**301**	266
Return on scheme assets less amounts included in pension net interest cost	**821**	257
Contributions by the Group	**114**	122
Contributions by schemes' participants	**1**	2
Total expenses paid from the scheme	**(15)**	(11)
Payments from the schemes	**(267)**	(263)
Settlements	**(8)**	–
Acquisition of subsidiary	**–**	–
Exchange rate adjustment	**(13)**	(25)
Pension schemes' assets at 31 December	**7,500**	6,566

Assumptions

The principal actuarial assumptions used are:

	UK		Other	
	2014 %	2013 %	**2014 %**	2013 %
Assumptions used in calculation of retirement benefit obligations:				
Discount rate	**3.7**	4.6	**3.7**	4.8
Annual rate of inflation (RPI)	**3.0**	3.3	**–**	–
Annual rate of inflation (CPI)	**2.2**	2.5	**1.9**	1.9
Annual rate of increase in salaries	**3.0**	3.3	**3.6**	3.7
Annual rate of increase in pensions[1]	**2.9**	3.2	**1.9**	1.9
Assumptions used in calculation of pension net interest costs for the year:				
Discount rate	**4.6**	4.3	**4.8**	4.2

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

Mortality rate

The mortality assumptions are set following investigations of the main schemes' recent experience by the schemes' actuaries for the funding valuations. At the funding valuation in March 2012, the mortality assumptions adopted for the main UK schemes used the SAPS Light Normal base table with percentage adjustments to reflect the schemes' recent experience compared with that expected under these tables.

Reductions in future mortality rates are allowed for by using the CMI 2013 tables with a long term rate of 1.00%. The weighted average assumptions imply that a current pensioner aged 60 has an expected future lifetime of **27.6** (2013: 27.6) years for males and **28.9** (2013: 28.8) years for females and a future pensioner aged 60 in 15 years time has a future expected lifetime from age 60 of **28.7** (2013: 28.3) years for males and **30.1** (2013: 30.0) years for females.

Sensitivity analysis

Sensitivities for the defined benefit obligations of the two main UK schemes are shown below (net of tax):

	Changes in assumption	**2014 £m**	2013 £m
Discount rate	Increase by 0.25%	**(237)**	(200)
RPI/CPI[2]	Increase by 0.25%	**177**	145
Mortality long-term rate	Increase by 0.25%	**70**	53
Life expectancy	Increase by 1 year	**192**	157

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

Notes to the financial statements continued

30. SHARE BASED COMPENSATION

The Group has five share based payment plans which are settled in the form of ordinary shares: the Performance Share Plan (PSP), the Long-Term Incentive Plan (LTIP), the Sharesave Plan (SAYE), the Sharebuild Plan (SIP) and the Executive Share Option Scheme (ESOS). Dilution levels for all schemes are held strictly within the limits set by the Investment Association (IA). Further LTIP information on the schemes is included below and in the Directors' Remuneration Report on pages 80 to 106.

The total employment cost recorded in the consolidated income statement for all plans in 2014 is **£10m** (2013: £9m).

Analysis of share scheme costs:

	2014 £m	2013 £m
LTIP	3	4
PSP	3	–
SAYE	2	3
Sharebuild	2	2
Total	**10**	9

The value of the awards granted during 2014 is **£15m** (2013: £16m) of which **£3m** (2013: £3m) is charged in the consolidated income statement. The balance of the value of the awards will be charged to the consolidated income statement during the remaining vesting periods.

Analysis of new award costs

	2014		2013	
	Charge for year £m	Total value £m	Charge for year £m	Total value £m
LTIP	–	–	3	13
PSP	3	12	–	–
SAYE	–	1	–	1
Sharebuild	–	2	–	2
Total	3	15	3	16

PERFORMANCE SHARE PLAN

The Performance Share Plan (PSP) for Executive Directors and other selected executives was adopted following approval obtained at the 2014 AGM. The first awards were made under this scheme in 2014.

The structure of the plan allows different types of awards to be made.

The Remuneration Committee may defer a portion of an individual's gross bonus into an award over shares referred to for the purpose of the plan as Deferred Bonus Shares. Deferred Bonus Shares awards are generally retained if an employee leaves the Group unless the employee is dismissed for cause. The awards are not subject to performance conditions.

Additionally, the Remuneration Committee may make conditional awards of Performance Shares and conditional awards of Restricted Shares. Awards of Performance shares granted in 2014 are subject to performance conditions consisting of Group underlying Return on Tangible Equity, relative Total Shareholder Return and a Business Review Scorecard over a three year performance period. Restricted Shares are not subject to performance conditions. If an employee resigns from the Group, then Performance Shares and Restricted Shares lapse at date of leaving the Group. However, the Remuneration Committee has the discretion to modify the treatment of leavers' share awards that have yet to be released, based on the leaving circumstances, where this is appropriate and in shareholders' interests. Awards retained will vest on the normal vesting date.

Long-Term Incentive Plan

The Long Term Incentive Plan (LTIP) for Executive Directors and other selected executives was adopted following approval obtained at the 2006 AGM. Awards have been made each year since 2006 following shareholder approval up to and including 2013. No awards were granted under this plan 2014.

Further information on the PSP and the LTIP can be found in the Directors' Remuneration Report within the corporate governance section on pages 80 to 106. Further disclosures in respect of the ESOS, SAYE and Sharebuild schemes have not been made on the grounds that the schemes are immaterial to the Group.

Notes to the financial statements continued

31. SUBSIDIARIES

Country of incorporation		Principal activity
United Kingdom	Royal Insurance Holdings plc	Holding company
	Royal & Sun Alliance Insurance plc	General insurance
	British Aviation Insurance Company Limited (57.1%)	General insurance
	The Globe Insurance Company Limited	Holding company
	The Marine Insurance Company Limited	General insurance
	Royal International Insurance Holdings Limited	Holding company
	Royal & Sun Alliance Reinsurance Limited	General insurance
	Sun Insurance Office Limited	General insurance
Argentina	Royal & Sun Alliance Seguros (Argentina) SA	General insurance
	El Comercio Compañía de Seguros SA	General insurance
	Aseguradora de Créditos y Garantías SA	General insurance
Bahrain	Royal & Sun Alliance Insurance (Middle East) BSC (c) (50.0%)	General insurance
Brazil	Royal & Sun Alliance Seguros (Brasil) SA	General insurance
Canada	Roins Financial Services Limited	Holding company
	Quebec Assurance Company	General insurance
	The Johnson Corporation	Holding company
	Royal & Sun Alliance Insurance Company of Canada	General insurance
	Western Assurance Company	General insurance
	Canadian Northern Shield Insurance Company	General insurance
Chile	RSA Seguros Chile SA (99.5%)	General insurance
China	Sun Alliance Insurance (China) Limited	General insurance
Colombia	Royal & Sun Alliance Seguros (Colombia) SA (86.7%)	General insurance
Denmark	Codan A/S	Holding company
	Codan Forsikring A/S	General insurance
Guernsey	Insurance Corporation of the Channel Islands Limited	General insurance
Isle of Man	Tower Insurance Company Limited	General insurance
Mexico	Royal & Sun Alliance Seguros (Mexico) SA de C.V.	General insurance
Netherlands	RSA Overseas (Netherlands) BV	Holding company
	RSA Overseas Holdings BV	Holding company
	Intouch Insurance Group BV	Holding company
Republic of Ireland	RSA Insurance Ireland Limited	General insurance
Sweden	Trygg-Hansa Försäkrings AB (publ)	General insurance
Uruguay	Royal & Sun Alliance Seguros (Uruguay) SA	General insurance

Notes:
1. This note only lists principal subsidiaries in the Group to avoid providing particulars of excessive length. None of the subsidiaries omitted from this note materially affects the results or assets of the Group.
2. A full list of the Group subsidiaries will be attached to the Company's next Annual Return, and be available from Companies House.
3. Except where indicated all of the subsidiaries listed are wholly owned within the Group. In all cases the proportion of voting power held equals the proportion of ownership interest.
4. There is no subsidiary where the Group holds less than 50% of the voting rights and there are no other entities where the Group holds more than 50% of the voting rights which are not subsidiaries.

32. CASHFLOWS FROM OPERATIONS

	2014 £m	Restated* 2013 £m
Net profit/(loss) for the year before tax	**60**	(203)
Adjustments for:		
Depreciation	**26**	31
Amortisation and impairment of intangible assets	**198**	478
Fair value losses (including losses on disposal) on property and equipment	**–**	2
Fair value gains (including gains on disposal) on financial assets	**(65)**	(26)
Fair value gains (including gains on disposal) on investment property	**(34)**	(13)
Impairment charge on available for sale financial assets	**4**	8
Share of loss from associates	**5**	6
Profit on disposal of subsidiaries	**(203)**	–
Foreign exchange gain	**(3)**	(4)
Amortisation of available for sale investments	**62**	55
Other non-cash movements	**315**	(56)
Changes in operating assets/liabilities:		
Movement in insurance contract liabilities		
Unearned premiums	**(395)**	36
Losses and loss adjustment expenses	**(145)**	339
Movement in working capital	**512**	(66)
Reclassification of investment income and interest paid	**(304)**	(357)
Cash generated from continuing operations	**33**	230
Cash generated from discontinued operations	**35**	11
Total cash generated from operations	**68**	241

33. RELATED PARTY TRANSACTIONS

The ultimate Parent Company of the Group is RSA Insurance Group plc which is incorporated in England and Wales.

The following transactions were carried out with related parties:

Key management compensation

	2014 £m	2013 £m
Salaries and other short-term employee benefits	**7**	7
Share based payments	**1**	–
Bonus awards	**3**	1
Pension benefits	**–**	1
Total	**11**	9

Key management personnel comprise members of the Group Executive Committee, Executive Directors, and Non-Executive Directors.

Notes to the financial statements continued

Included in salaries and other short term employee benefits and bonus awards is **£3,899,000** (2013: £3,116,000) paid in respect of directors. These amounts exclude the value of share options granted to directors and gains made on the exercise of such options, Group contributions paid in respect of pension schemes and cash or other assets received or receivable under long-term incentive schemes. The total value of the directors' remuneration (including values for these excluded items) and other details are disclosed in the remuneration report.

A number of the Directors, other key managers, their close families and entities under their control have general insurance policies with subsidiary companies of the Group. Such policies are available at discounted rates to all employees including Executive Directors.

At 31 December 2013, there was an interest free loan totalling £5,000 outstanding to a member of the key management team under the standard terms of the Group's UK Car Ownership Scheme, which is open to all UK managers within a qualifying salary band. The balance was repaid during 2014.

34. COMMITMENTS

Capital Commitments

The Group's significant capital commitments in respect of property and equipment and intangible assets are detailed in the table below:

	2014 £m	2013 £m
Property and equipment	**11**	9
Intangible assets	**39**	39
Total	**50**	48

Operating lease commitments

The Group leases various outlets and offices under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

Operating lease commitments where the Group is the lessee

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Land and buildings		Other	
	2014 £m	2013 £m	2014 £m	2013 £m
One year or less	**47**	58	**2**	3
Between one and five years	**137**	166	**2**	4
After five years	**108**	134	**–**	–
	292	358	**4**	7
Recoveries under sub tenancies	**(8)**	(11)	**–**	–
Total	**284**	347	**4**	7

Operating lease commitments where the Group is the lessor

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Land and buildings	
	2014 £m	2013 £m
One year or less	**21**	22
Between one and five years	**74**	74
After five years	**80**	81
Total	**175**	177

Funding commitments to structured entities

The future commitments to structured entities are disclosed in the risk management section of these financial statements.

35. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the year end the Group announced the intention to sell its 26% interest in Royal Sundaram Alliance Insurance Company Ltd, its associate in India. The proceeds of the sale are expected to be around £46m, generating an expected profit of approximately £16m and completion of the sale is subject to final regulatory approval.

Parent company statement of comprehensive income

for the year ended 31 December 2014

	2014 £m	2013 £m
(Loss)/profit for the year net of tax	(9)	271
Fair value gains/(losses) net of tax	357	(1,371)
Total comprehensive income/(expense) for the year	**348**	(1,100)

The loss for the year net of tax includes a tax credit of **£7m** (2013: charge £1m). There is no tax relating to fair value gains.

Parent company statement of changes in equity

for the year ended 31 December 2014

	Ordinary share capital £m	Ordinary share premium £m	Preference shares £m	Revaluation reserves £m	Capital redemption reserve £m	Retained earnings £m	Total £m
Balance at 1 January 2013	989	717	125	2,275	8	986	5,100
Profit for the year net of tax	–	–	–	–	–	271	271
Fair value losses net of tax	–	–	–	(1,371)	–	–	(1,371)
Total comprehensive expense for the year	–	–	–	(1,371)	–	271	(1,100)
Dividends – paid (note 7)	–	–	–	–	–	(232)	(232)
Dividends – Issued by scrip	18	(18)	–	–	–	75	75
Issued for cash (note 4)	2	5	–	–	–	–	7
Share based payments	3	–	–	–	–	5	8
Balance at 1 January 2014	1,012	704	125	904	8	1,105	3,858
Loss for the year net of tax	–	–	–	–	–	(9)	(9)
Fair value gains net of tax	–	–	–	357	–	–	357
Total comprehensive income for the year	–	–	–	357	–	(9)	348
Dividends – paid (note 7)	–	–	–	–	–	(9)	(9)
Issued for cash (note 4)	382	371	–	–	–	–	753
Share consolidation (note 4)	(381)	–	–	–	381	–	–
Share based payments	2	–	–	–	–	8	10
Balance at 31 December 2014	**1,015**	**1,075**	**125**	**1,261**	**389**	**1,095**	**4,960**

The movement in equity for the year net of tax includes a net tax charge of £nil (2013: £1m).

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

Parent company statement of financial position

as at 31 December 2014

	Notes	2014 £m	2013 £m
Assets			
Fixtures and fittings		–	1
Intangible assets		4	2
Investments	2	4,408	5,109
Amounts owed by subsidiaries	9	2,489	1,575
Current tax assets	6	9	8
Deferred tax assets	6	9	11
Other debtors and other assets	3	10	10
		2,517	1,604
Cash and cash equivalents		10	3
Total assets		6,939	6,719
Equity and liabilities			
Equity			
Share capital	4	1,140	1,137
Reserves		2,724	1,616
Retained earnings		1,096	1,105
Total equity and reserves		4,960	3,858
Liabilities			
Amounts owed to subsidiaries	9	639	1,474
Loan capital	5	1,243	1,309
Current tax liabilities	6	2	2
Accruals and other liabilities		95	76
Total liabilities		1,979	2,861
Total equity, reserves and liabilities		6,939	6,719

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

The separate financial statements were approved on 25 February 2015 by the Board of Directors and are signed on its behalf by:

Richard Houghton
Group Chief Financial Officer

Parent company statement of cashflows

for the year ended 31 December 2014

	Notes	2014 £m	2013 £m
Net cashflows from operating activities	8	**(102)**	268
Purchase of intangible assets		**(1)**	–
Net movement in amounts owed by subsidiaries		**(175)**	(118)
Net cashflows from investing activities		**(176)**	(118)
Proceeds from issue of share capital		**753**	7
Dividends paid		**(9)**	(157)
Investment in subsidiary		**(395)**	–
Subordinated debt – repayments		**(459)**	–
Subordinated debt – new issue		**395**	–
Net cashflows from financing activities		**285**	(150)
Net increase in cash and cash equivalents		**7**	–
Cash and cash equivalents at beginning of the year		**3**	3
Cash and cash equivalents at end of the year		**10**	3

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

Notes to the separate financial statements

1. SIGNIFICANT ACCOUNTING POLICIES

RSA Insurance Group plc, incorporated in England and Wales, is the ultimate Parent Company ('the Company') of the RSA group of companies. The principal activity of the Company is to hold investments in its subsidiaries and the receipt and payment of dividends.

These separate financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

Except where otherwise stated, all figures included in the separate financial statements are presented in millions of Pounds Sterling ('Sterling'), shown as £m, rounded to the nearest million.

In accordance with section 408 of Companies Act 2006, the Company's income statement and related notes have not been presented in these separate financial statements.

The accounting policies that are used in preparation of these separate financial statements are consistent with the accounting policies used in preparation of the consolidated financial statements of RSA Insurance Group plc as set out in those financial statements.

The additional accounting policies that are specific to the separate financial statements of the Company are set out below.

Investment in subsidiaries

The Company accounts for its investments in directly owned subsidiaries as available for sale financial assets, which are included in the accounts at fair value.

Changes in the fair value of the investments in subsidiaries are recognised directly in equity in the statement of comprehensive income. Where there is a decline in the fair value of a directly owned subsidiary below cost, and there is objective evidence that the investment is impaired, the cumulative loss that has been recognised in equity is removed from equity and recognised in the income statement.

Dividend income

Dividend income from investments in subsidiaries is recognised when the right to receive payment is established.

2. INVESTMENTS

	2014 £m	2013 £m
Investments at 1 January – at valuation	**5,109**	6,479
Additions during the year	**395**	–
Impairment during the year	**(1,158)**	–
Fair value adjustments	**62**	(1,370)
Investments at 31 December – at valuation	**4,408**	5,109

The balance at 31 December comprises:

	2014 £m	2013 £m
Investment in subsidiaries	**3,724**	4,146
Loans to subsidiaries	**684**	963
	4,408	5,109

Notes to the separate financial statements continued

The investments in subsidiaries are recognised in the statement of financial position at fair value measured in accordance with the Company's accounting policies. The Company's investments are classified as level 2 financial assets. Fair value of the Company's significant subsidiary is determined by reference to the market value (derived from relevant indices) of the Company's ordinary shares and loan capital instruments at the end of the reporting period, being the most transparent independent available indicator. The market value is adjusted for the fair value of the Company's preference shares, assets and liabilities, excluding directly owned subsidiaries. The adjusting items have been fair valued by determining the present value of future cashflow projections, using an appropriate arm's length discount rate. The remaining subsidiaries are held at fair value which has been determined to be net asset value.

The Directors believe that the methodology used supports the inclusion of the investments in subsidiaries in the statement of financial position, at the fair values ascribed to them. The market value of the Company's ordinary shares at 31 December 2014 was **4.35p**. A movement of 1% in the share price would have an impact of **£44m** on the fair value.

Full details of the principal subsidiaries of the Company are set out in note 31 to the consolidated financial statements.

3. OTHER DEBTORS AND OTHER ASSETS – TO BE SETTLED WITHIN 12 MONTHS

	2014 £m	2013 £m
Other prepayments and accrued income	**1**	1
Other debtors	**9**	9
Total other debtors and other assets	**10**	10

4. SHARE CAPITAL

Full details of the share capital of the Company are set out in note 20 to the consolidated financial statements.

5. LOAN CAPITAL

Full details of the loan capital of the Company are set out in note 21 to the consolidated financial statements.

6. CURRENT AND DEFERRED TAX

	Asset		Liability	
	2014 £m	2013 £m	**2014 £m**	2013 £m
To be settled within 12 months	**9**	8	**–**	–
To be settled after 12 months	**–**	–	**2**	2
	9	8	**2**	2

The current tax relating to items that are credited to equity is **£2m** (2013: £2m).

Notes to the separate financial statements continued

Deferred tax assets

Deferred tax for the current year is based on a rate of **20%** (2013: 20.0%). The following are the major deferred tax assets recognised by the Company and movements during the year:

	2014 £m	2013 £m
Other temporary differences	1	4
Reclassification of bonds	2	3
Accelerated capital allowances	6	4
Net deferred tax position at 31 December	9	11

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

	2014 £m	2013 £m
Net deferred tax position at 1 January	11	22
Amount charged to income statement	–	(6)
Amount charged to equity	(2)	(2)
Effect of change in tax rates – income statement	–	(2)
Effect of change in tax rates – equity	–	(1)
Net deferred tax position at 31 December	9	11

The Company has recognised a deferred tax asset of **£1m** (2013: £2m) in other temporary differences in respect of deferred tax reliefs of **£58m** (2013: £52m). No deferred tax has been recognised in respect of **£55m** (2013: £43m) of deferred tax reliefs due to the unpredictability of future profits streams.

Net deferred tax assets of **£9m** (2013: £11m), that relate to tax jurisdictions in which the Company has suffered a loss in either the current or preceding period, have been recognised on the basis that future taxable profits will be available against which these can be utilised. The evidence for the future taxable profits is a forecast consistent with the three year operational plans prepared by the relevant businesses, which are subject to internal review and challenge. Where relevant, the forecast includes extrapolations of the operational plans using assumptions consistent with those used in the plans.

7. DIVIDENDS

Full details of the dividends paid and proposed by the Company are set out in note 8 to the consolidated financial statements.

8. CASH GENERATED FROM OPERATIONS

	2014 £m	2013 £m
Net (loss)/profit for the year before tax	(16)	268
Changes in operating assets/liabilities	(86)	–
Net cashflows from operating activities	**(102)**	268

9. RELATED PARTY TRANSACTIONS

RSA Insurance Group plc (incorporated in England and Wales) is the ultimate Parent Company of the RSA group of companies.

The following transactions were carried out with related parties:

Provision of services and benefits

RSA Insurance Group plc provides services and benefits to its subsidiary companies operating within the UK and overseas as follows:

- Provision of technical support in relation to risk management, information technology and reinsurance services. Services are charged for annually on a cost plus basis, allowing for a margin of **5%** (2013: 5%).
- Issue of share options and share awards to employees of subsidiaries. Costs are charged for annually, based on the underlying value of the awards granted calculated in accordance with the guidance set out within IFRS 2.

	2014 £m	2013 £m
Salaries and other short term employee benefits	7	7
Bonus awards	3	1
Pension benefits	–	1
Share based payments	1	–
Total	**11**	9

Other transactions

Year end balances with related parties are set out below:

	2014 £m	2013 £m
Receivable from related parties:		
Receivable from subsidiaries, interest bearing loans	1,902	728
Receivable from subsidiaries, non interest bearing loan	587	847
Total receivable from related parties	**2,489**	1,575
Payable to related parties:		
Payable to subsidiaries, interest bearing loans	185	1,016
Payable to subsidiaries, non interest bearing loan	454	458
Total payable to related parties	**639**	1,474

Interest is charged on interest bearing loans, which are repayable on 24 hours written notice. **£170m** (2013: £745m) at three months LIBOR plus 0.6% and **£15m** (2013: £271m) at three months LIBOR +200bp.

Additional loans to subsidiaries of **£684m** (2013: £963m) as disclosed within note 2 have been made. Of this, **£nil** (2013: £304m), **£82m** (2013: £80m) and **£602m** (2013: £579m) are subordinated loans on which interest is charged at 8.5%, 6.701% and 9.375% respectively with the remaining loan balance interest free with no specified repayment date.

Royal & Sun Alliance Insurance plc (RSAI), a subsidiary of the Company, has provided guarantees to the Company's creditors for amounts arising from its loan capital agreements (as set out in note 21 to the consolidated financial statements) and for amounts arising from its committed credit facilities (as set out in note 25 to the consolidated financial statements). The guarantees relating to the loan capital agreements are subordinated to all other creditors of RSAI.

In October 2014, the Company subscribed for new ordinary shares issued by its wholly owned subsidiary Royal Insurance Holdings plc for a total consideration of £395m.

10. SHARE BASED COMPENSATION

Full details of share based compensation plans are provided in note 30 to the consolidated financial statements.

11. RISK MANAGEMENT

The risks faced by the Company are derived from its investment in subsidiaries and are therefore the same as those of the RSA group of companies. Details of the key risks to the Group and the steps taken to manage them are disclosed in the Risk Management section of the consolidated financial statements.

Shareholder information

REGISTERED OFFICE AND GROUP CORPORATE CENTRE
20 Fenchurch Street, London EC3M 3AU. Telephone: +44(0) 20 7111 7000.
Registered in England and Wales No. 2339826.

GROUP WEBSITE
The Company's corporate website provides shareholders with a broad range of information about the Company's heritage, social and environmental responsibilities and investor information such as the Group's financial statements, current and historic share prices, Annual General Meeting (AGM) materials, events, governance information and answers to frequently asked questions in respect of shareholder matters. Visit the investor website at www.rsagroup.com/investorrelations for further information.

REGISTRAR
The Company's share register is maintained by Equiniti Limited. Any administrative enquiries relating to shareholdings, such as dividend payment instructions or a change of address, should be notified to Equiniti at the following address:

Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA
Telephone: 0871 384 2048

When contacting Equiniti, please quote your shareholder reference number which can be found on your share certificate or dividend tax voucher. Calls cost 8p per minute plus network extras. Telephone lines are open from 8.30am to 5.30pm Monday to Friday. Overseas callers should use +44(0) 121 415 7064. Shareholders with a text phone facility should use +44(0) 871 384 2255 or alternatively use the Text Relay service by dialling 18001 0121 415 7064 directly from the text phone. To securely email Equiniti with an enquiry visit http://help.shareview.co.uk.

ANNUAL GENERAL MEETING
Holders of the Company's Ordinary Shares are invited to attend the Company's 2015 AGM, which will be held at 200 Aldersgate, St Paul's, London EC1A 4HD at 11.00am on Friday 8 May 2015.

MANAGING YOUR SHAREHOLDING
Information on how to manage your shareholding can be found at http://help.shareview.co.uk. If you do not find the information you require, you can send your enquiry via secure email from these pages. You will be asked to complete a form providing your name, address and shareholder reference number. If you require an email response, you will need to provide your email address.

AMALGAMATION OF ACCOUNTS
Shareholders who receive duplicate sets of Company mailings owing to multiple accounts in their name may contact Equiniti to request that their accounts be amalgamated.

ELECTRONIC COMMUNICATIONS
Receiving the Company's communications electronically allows the Company to communicate with its shareholders in a more environmentally friendly, cost effective and timely manner.

You can elect to receive email notifications of shareholder communications by registering at www.shareview.co.uk where you can also set up a bank mandate to receive dividends directly to your bank account and submit proxy votes for shareholder meetings. Shareholders may elect to receive a printed copy of the Annual Report and Accounts at any time by contacting Equiniti.

Additionally, if you wish to register for the Company's investor news service to receive the latest news and press releases by email, visit www.rsagroup.com/investornewsalert.

DIVIDENDS

Shareholders are encouraged to have their dividends paid directly into their bank account. It is a more secure and faster way to receive the dividend payment with cleared funds available to shareholders on the dividend payment date. Shareholders who have their dividends paid directly into their bank receive a consolidated tax voucher once a year, showing payments received in the respective tax year. Alternatively, individual tax vouchers are available upon request. To take advantage of this convenient method of payment visit www.shareview.co.uk or contact Equiniti. Details of 2015 dividend dates can be found in the Financial Calendar on page 211.

SCRIP DIVIDEND SCHEME

The Company renewed its authority to offer a Scrip Dividend Scheme to shareholders at the 2014 AGM. The Company will not be offering a Scrip Dividend alternative in respect of the final 2014 Ordinary dividend.

The Scrip Dividend Scheme Terms and Conditions were updated in February 2015 and these are available on the shareholder services area of the Company's website or from Equiniti. Shareholders with a scrip dividend mandate in place need take no further action as your mandate remains effective until notified to the Registrar in writing. For dividends where a scrip alternative is offered, shareholders wishing to receive a scrip dividend instead of a cash dividend should contact Equiniti for details or visit the shareholder services area of the Company's website.

AMERICAN DEPOSITARY RECEIPTS

The Company operates a sponsored American Depositary Receipts ('ADR') programme which is managed by JPMorgan Chase NA. The programme allows shareholders to invest in the Company through US dollar denominated funds. Any enquiry relating to the sponsored ADR programme should be addressed to:

JPMorgan Chase & Co
PO Box 64504
St Paul
MN 55164-0504 USA

or alternatively visit adr.com/shareholder and select Contact Us.

LOW COST SHARE DEALING FACILITIES

Shareholders may purchase or sell their RSA Ordinary Shares through their stockbroker, a high street bank or one of the providers detailed below:

Equiniti offer a telephone and internet dealing service. Commission is currently 1.5% with a minimum charge of £50 for telephone dealing and currently 1.5% with a minimum charge of £45 for internet dealing. For telephone sales call +44(0) 845 6037 037 between 8.30am and 4.30pm, Monday to Friday. For internet sales log on to www.shareview.co.uk/dealing. Please quote your shareholder reference number.

Stocktrade also offer a telephone dealing service. Commission is currently 0.5% on amounts up to £10,000 and 0.2% on the excess thereafter, all of which are subject to a minimum charge of £25.00. For telephone sales call +44(0) 131 240 0400 between 8.00am and 4.30pm, Monday to Friday. Please quote reference: 'RSA Group dial and deal service'. Alternatively visit their website, www.stocktrade.co.uk.

Please note that rates quoted are as at February 2015 and may be subject to change. Please contact either provider for further guidance on their full terms and conditions.

SHARE REGISTER FRAUD: PROTECTING YOUR INVESTMENT

UK law requires that our shareholder register is available for public inspection. We are unable to control the use of information obtained by persons inspecting the register. Details of any share dealing facilities that the Company endorses will be included in Company mailings or on our website.

Shareholder information continued

Shareholders are advised to be wary of any unsolicited advice, offers to buy shares at a discount, or offers of free reports about the Company. If you receive any unsolicited advice, make sure you get the correct name of the person and organisation and check that they are appropriately authorised by the FCA by visiting www.fca.org.uk. More information on protecting your investment can be found at http://www.fca.org.uk/consumers/scams/investment-scams/protect-yourself. If you do receive a fraudulent approach, please advise the FCA using the share fraud reporting form at www.fca.org.uk/scams or call the FCA Consumer Helpline on 0800 111 6768.

TIPS ON PROTECTING YOUR SHARES

- Keep any documentation that contains your shareholder reference number in a safe place and destroy any documentation you no longer require by shredding it
- Inform Equiniti promptly when you change your address
- Be aware of dividend payment dates and contact Equiniti if you do not receive your dividend cheque, or better still, make arrangements to have the dividend paid directly into your bank account
- Consider holding your shares electronically in a CREST account via a nominee.

SHAREGIFT

Shareholders with a small number of shares, the value of which makes it uneconomic to sell them, may wish to consider donating them to charity through ShareGift, a registered charity administered by The Orr Mackintosh Foundation, registered charity number 1052686. The relevant share transfer form can be obtained from Equiniti. Further details can be obtained from www.sharegift.org or by calling +44(0) 20 7930 3737.

Financial calendar

THURSDAY 5 MARCH 2015
Ex dividend date for the ordinary final dividend for 2014 and the first preference dividend for 2015.

FRIDAY 6 MARCH 2015
Record date for the ordinary final dividend for 2014 and the first preference dividend for 2015.

WEDNESDAY 1 APRIL 2015
Payment date for the first preference dividend for 2015.

THURSDAY 7 MAY 2015
Q1 Interim Management Statement.

FRIDAY 8 MAY 2015
Annual General Meeting.

FRIDAY 15 MAY 2015
Payment date for the ordinary final dividend for 2014.

THURSDAY 6 AUGUST 2015*
Announcement of the half year results for the six months ended 30 June 2015 and the ordinary interim dividend for 2015.

THURSDAY 13 AUGUST 2015*
Ex dividend date for the ordinary interim dividend and the second preference dividend for 2015.

FRIDAY 14 AUGUST 2015*
Record date for the ordinary interim dividend and the second preference dividend for 2015.

WEDNESDAY 1 OCTOBER 2015*
Payment date for the second preference dividend for 2015.

THURSDAY 5 NOVEMBER 2015*
Q3 Interim Management Statement.

FRIDAY 20 NOVEMBER 2015*
Payment of the ordinary interim dividend for 2015.

*** PROVISIONAL DATES**

Jargon buster

Below is a simple explanation of some of the key technical terms used within this report.

Term	Definition
Affinity	· Selling insurance through a partner's distribution network, usually to a group of similar customers, e.g. store card holders, alumni groups, unions and utility company customers.
Capital	· The money invested in the Group. This includes the money invested by shareholders and profits retained within the Group.
Claims Frequency	· Average number of claims per policy over the year.
Claims Handling Expenses	· The administrative cost of processing a claim (salary costs, costs of running claims centres, etc. and allocated share of the costs of head office units). Not the cost of the claim itself.
Claims Ratio (Loss Ratio)	· Percentage of Net Earned Premiums which is paid out in claims and Claims Handling Expenses.
Claims Reserve (Provision for Losses and Loss Adjustment Expenses)	· Reserve established by the Group to reflect the estimated cost of claims payments and related expenses that we estimate we will ultimately be required to pay.
Claims Severity	· Average cost of claims incurred over the period.
Combined Operating Ratio (COR)	· The sum of the Claims Ratio, Expense Ratio and Commission Ratio. · Measures how much we pay out in claims and expenses for each unit of net premium received. · A COR of less than 100% indicates that we are writing profitable business. · Calculated as: $\frac{\text{Net Incurred Claims + Expenses + Commissions}}{\text{Net Earned Premiums}}\%$
Commission	· An amount paid to an intermediary such as a broker for generating business.
Commission Ratio	· Ratio of net commission costs to Net Earned Premiums.
Current Year Result	· The underwriting profit or loss earned from business for which protection has been provided in the current financial period.
Earned Premium	· The portion of an insurance premium for which we have already provided protection.
Economic Capital	· The Group's assessment of the capital we must hold to have a high confidence of meeting our obligations given our risk appetite.
Expense Ratio	· Percentage of Net Earned Premiums which is paid out in operating expenses e.g. salaries, premises costs, etc. The ratio does not include claims related expenses but can include or exclude commissions.
Exposure	· A measurement of risk we are exposed to through the premiums we have written. For example, in motor insurance one vehicle insured for one year is one unit of exposure.
Financial Conduct Authority (FCA)	· The regulatory authority for the conduct of the UK financial services industry.
Gross Written Premium (GWP)	· Total premium written or processed in the period, irrespective of whether it has been paid.
IBNR (Incurred but Not Reported)	· A reserve for accidents or incidents (which we have provided cover for) that have occurred but which have not yet been reported to us.
IGD Capital Requirement	· Insurance Groups Directive capital is the capital the Group is required to hold based on standard calculations defined by the FSA under the EU Solvency 1 directive.
Insurance Result	· This is a measure of how well we have done, including both our underwriting result and investment performance.

Term	Definition
Large losses	· Single claims or events with a net cost of £500k or higher.
Net Earned Premium (NEP)	· The portion of Net Written Premiums for which we have already provided protection. This is included as income in the period.
Net Incurred Claims (NIC)	· The total claims cost incurred in the period less any share to be paid by reinsurers. It includes both claims payments and movements in claims reserves in the period, as well as claims handling expenses.
Net Written Premium (NWP)	· Net Written Premium is premium written or processed in the period, irrespective of whether it has been paid, less the amount paid out in reinsurance premiums.
Prior Year Result	· Profit or loss generated by settling claims incurred in a previous year at a better or worse level than the previous estimated cost.
Property and Casualty (P&C) (Non Life Insurance or General Insurance)	· Property insurance covers loss or damage through fire, theft, floods, storms and other specified risks. Casualty insurance primarily covers losses arising from accidents that cause injury to other people or damage to the property of others.
Prudential Regulation Authority (PRA)	· The regulatory authority with responsibility for the prudential regulation and supervision of the UK financial services industry.
Rate	· The price of a unit of insurance based on a standard risk for one year. Actual premium charged to the customer may differ from the rate due to individual risk characteristics and marketing discounts.
Reinsurance	· The practice whereby we transfer part or all of the risk we have accepted to another insurer (the reinsurer).
Run-off	· A situation where an insurer is no longer underwriting new business but continues to meet its liabilities under existing contracts.
Solvency II	· New capital adequacy regime for the European insurance industry. Establishes a revised set of EU wide capital requirements and risk management standards.
Scrip Dividend	· Where shareholders choose to receive the dividend in the form of additional shares rather than cash. The Group issues new shares to meet the scrip demand.
Tangible Net Asset Value (TNAV)	· The tangible value of the Group calculated by subtracting our total liabilities including loan capital from our total tangible assets (total assets less goodwill and intangibles).
Total Shareholder Return	· A measure of performance based on the overall value to shareholders of their investment in the Group over a period of time. Includes the movement in the share price and dividends paid, expressed as a percentage of the share price at the beginning of the period.
Underlying loss ratio	· Claims incurred during the period expressed as a percentage of earned premiums, including claims handling expenses but excluding claims incurred in respect of large losses, weather events and subsidence losses.
Underlying Return on Tangible Equity	· A measure of the underlying profits the Group earns, adjusted for profit/loss on disposal of subsidiaries, reorganisation and integration costs and acquisition costs, relative to opening tangible funds attributable to ordinary shareholders.
Underwriting Result	· This is a measure of how well the Group has done excluding its investment performance and is calculated as: NEP – Net Incurred Claims (including Claims Handling Expenses) – Expenses – Commissions
Unearned Premium	· The portion of a premium that relates to future periods, for which protection has not yet been provided, irrespective of whether the premium has been paid or not.
Weather losses	· Weather events with a net cost of £500k or higher.
Yield	· Rate of return on an investment in percentage terms. · The dividend payable on a share expressed as a percentage of the market price.

Notes

Notes

MIX
Paper from responsible sources
FSC® C022913
FSC
www.fsc.org

Printed at Pureprint Group, ISO 14001.
FSC® certified and CarbonNeutral®.

This report was printed using vegetable oil based inks by Pureprint Group a CarbonNeutral® printer certified to ISO 14001 environmental management system and registered to EMAS the Eco Management Audit Scheme.

Both manufacturing mill and the printer are registered to the Environmental Management System ISO4001 and are Forest Stewardship Council® (FSC) chain of custody certified.

Designed and produced by SALTERBAXTER MSLGROUP

Important disclaimer
This document contains 'forward-looking statements' with respect to certain of the Group's plans and its current goals and expectations relating to its future financial condition, performance, results, strategic initiatives and objectives. Generally, words such as 'may', 'could', 'will', 'expect', 'intend', 'estimate', 'anticipate', 'aim', 'outlook', 'believe', 'plan', 'seek', 'continue', 'potential' or similar expressions, identify forward-looking statements.

By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances which are beyond the Group's control, including amongst other things, UK domestic, Eurozone and global economic business conditions, market-related risks such as fluctuations in interest rates and exchange rates, the policies and actions of governments, central banks and regulatory authorities (including changes related to capital and solvency requirements whether in the UK, Eurozone or globally), the impact of competition, inflation, deflation, the timing impact and other uncertainties of future acquisitions or combinations within relevant industries, as well as the impact of tax and other legislation or regulations in the jurisdictions in which the Group and its affiliates operate.

The Group's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set forth in the Group's forward-looking statements and, as a result, these forward-looking statements are not guarantees of future performance of the Group and undue reliance should not be placed on them. The Group undertakes no obligation to update any forward-looking statements, save in respect of any requirement under applicable law or regulation. Neither the content of RSA's website nor the content of any other website accessible from hyperlinks on RSA's website is incorporated into, or forms part of, this document.

www.rsagroup.com