RSA

UNDERWRITING PROGRESS

ANNUAL REPORT
AND ACCOUNTS 2011

2011 HIGHLIGHTS

Welcome to our Annual Report and Accounts 2011. We are a leading general insurer operating in 33 countries and providing products and services in around 140 countries.

We have a strong portfolio of businesses combining

- Leading positions in our competitive domestic UK market
- Strong operations in the attractive mature markets of Scandinavia and Canada
- An Irish business which consistently outperforms the market
- A targeted, niche Italian operation
- Fast-growing Emerging Markets businesses.

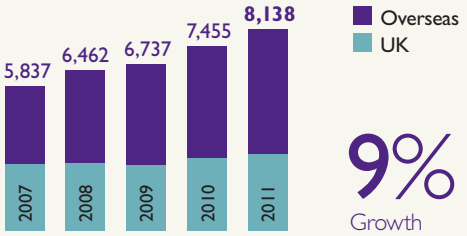
The diversity of our portfolio is one of our key strengths. Looking forward, we are targeting to increase our exposure to our attractive overseas markets and our fast-growing Emerging Market operations.

We had set a target for our businesses outside of the UK to be c70% of Group NWP by the end of 2015. We now expect to be close to this in 2014 and to move beyond 70% in subsequent years.

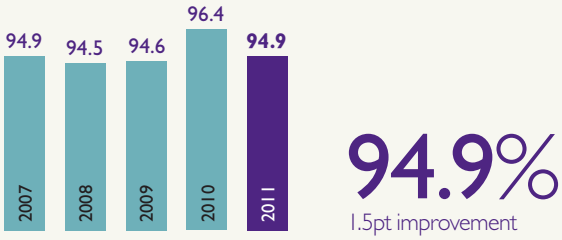
We also remain on target to grow Emerging Markets NWP to around £2.2bn by the end of 2015.

FINANCIAL HIGHLIGHTS

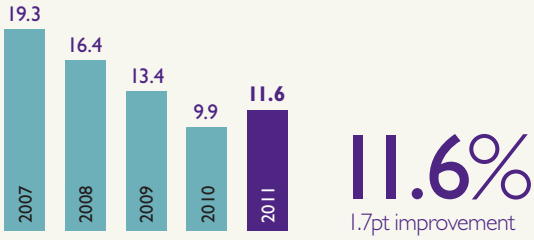
Net written premiums (£m)



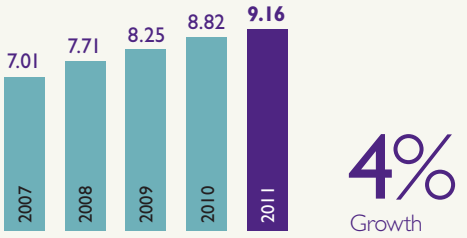
Combined operating ratio (%)



Underlying return on average equity (%)



Dividend for the year (p)



HIGHLIGHTS

- 2011 was a challenging year for the industry, with low yields, the weak economic environment and record catastrophe losses. Despite this, we drove another good performance
- We delivered strong top line growth in 2011, with NWP up by 9% to £8.1bn across the Group
- All regions delivered NWP growth, with International up by 11%, the UK up by 6% and Emerging Markets up by 14%
- We grew our underwriting result by 58% to £375m and our investment result was up by 19% to £642m
- Profit before tax was up by 29% to £613m
- Our capital position remains strong with an IGD surplus of £1.3bn
- In 2012, we are confident of delivering good premium growth, a COR of better than 95% and investment income of around £500m.

Visit www.rsagroup.com for more information.

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 37 constitute the business review of RSA and are incorporated by reference into the Directors' and corporate governance report set out on pages 44 to 56. 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

RSA AROUND THE WORLD

WE ARE A LEADING GENERAL INSURER OPERATING IN 33 COUNTRIES AND PROVIDING PRODUCTS AND SERVICES IN AROUND 140 COUNTRIES THROUGH OUR GLOBAL NETWORK OF LOCAL PARTNERS.

REGIONS

SCANDINAVIA

- We operate as Codan in Denmark and Norway and as Trygg-Hansa in Sweden
- We have a multi-channel distribution model, selling our products through call centres, intermediaries and affinity partners.

CANADA

- We distribute products through intermediaries under the RSA brand. Our Direct offering is Johnson
- Our affiliated broker network, Noraxis, is a top 5 Canadian broker
- In January 2011, we completed the acquisition of GCAN, a leading Mid-Market, Large and Specialty Commercial insurer.

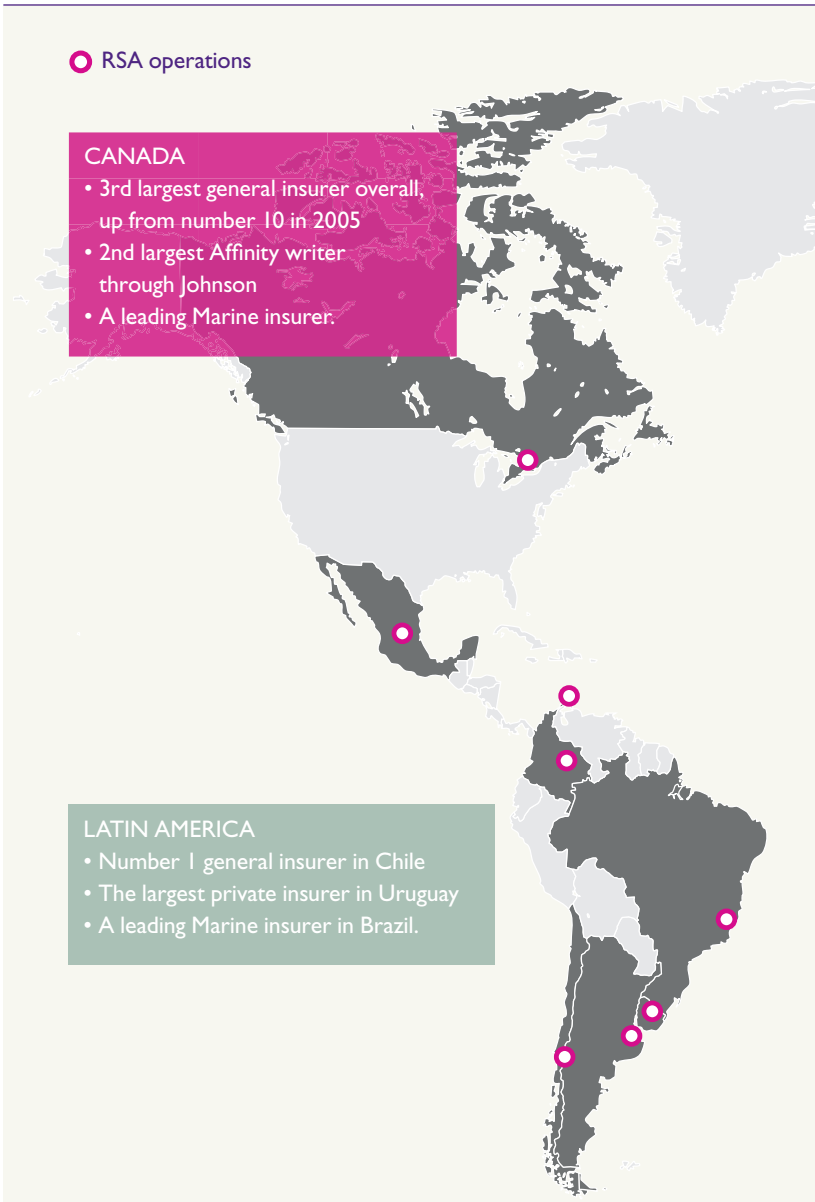
UK AND WESTERN EUROPE

- In the UK, we operate as RSA through intermediaries and as MORE TH>N in the Direct market
- In Ireland, we operate as RSA through intermediaries and as 123.ie in the Direct market
- Our Italian operation is purely intermediated, operating as RSA through brokers and non-tied agents
- We have RSA branded Specialty operations in Belgium, France, Germany, the Netherlands, Spain and Italy.

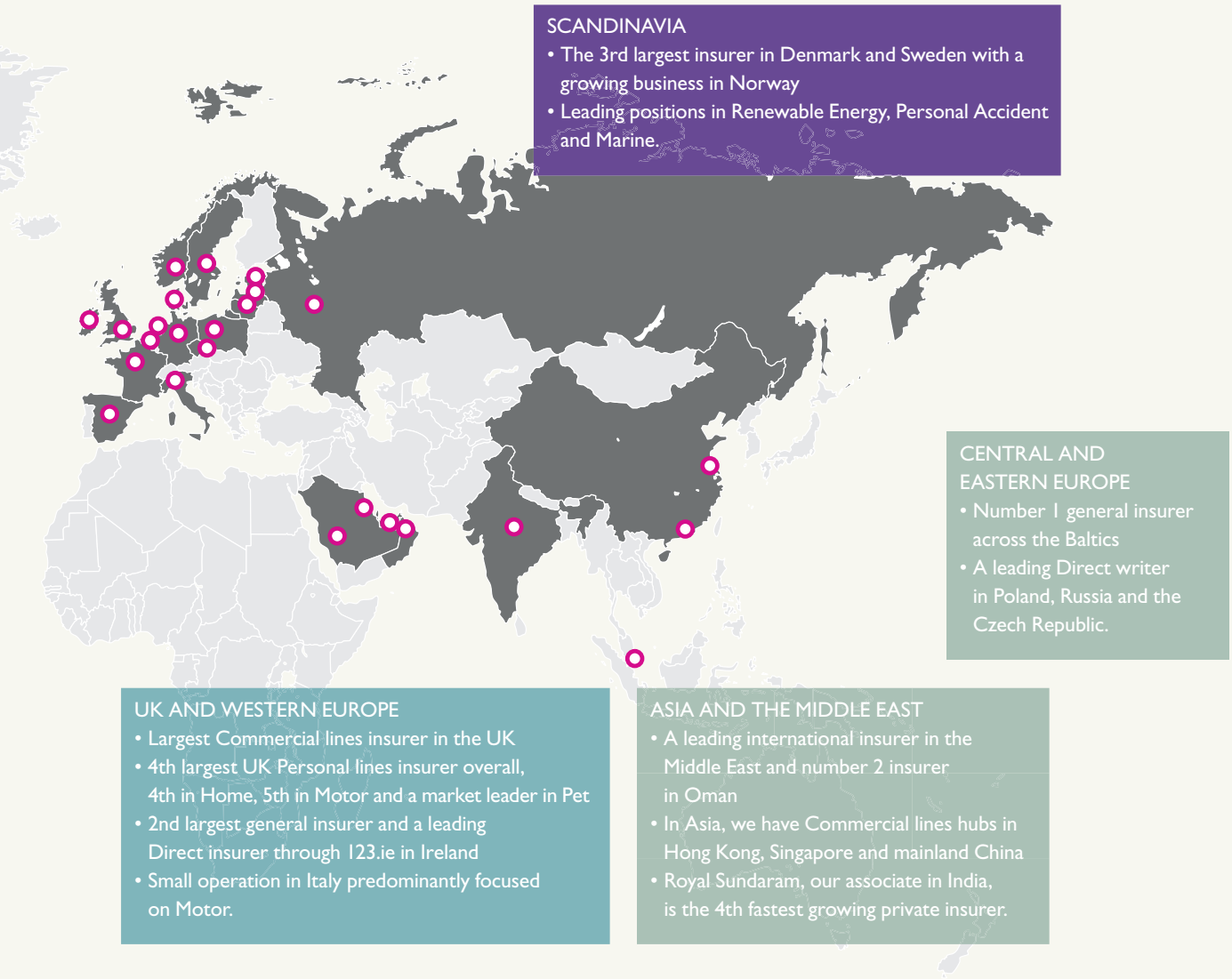
EMERGING MARKETS

- Our main focus is on Large and Complex risks, Motor, Small and Medium Enterprises (SME), Marine and Affinity
- In Latin America, we operate as RSA in Argentina, Brazil, Chile, Colombia, Mexico, Uruguay and the Dutch Caribbean
- In Central and Eastern Europe, we operate as Lietuvos Draudimas in Lithuania, as Balta in Latvia, as RSA in Estonia, as Link4 in Poland, as InTouch in Russia and as Direct Pojišťovna in the Czech Republic
- In Asia and the Middle East, we operate as RSA in China, Hong Kong, Singapore, UAE and Bahrain and we operate as Al Alamiya in Saudi Arabia and as Al Ahlia in Oman.

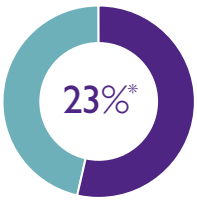
KEY FACTS



From 1 January 2012, the Group was restructured into four regions: Scandinavia, Canada, UK and Western Europe, which includes Ireland and Italy, and Emerging Markets, which is unchanged. The 2011 financial results are prepared according to the previous structure: UK, International and Emerging Markets. A reconciliation between the two structures is presented on page 105.



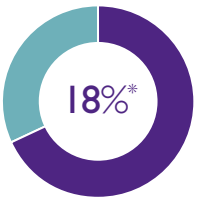
SCANDINAVIA



NWP £1,824m

Personal	54%
Commercial	46%

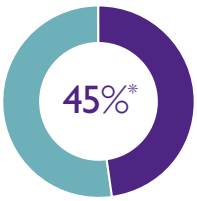
CANADA



NWP £1,483m

Personal	68%
Commercial	32%

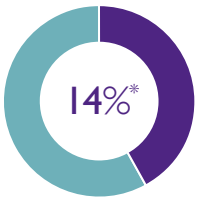
UK AND WESTERN EUROPE



NWP £3,701m

Personal	48%
Commercial	52%

EMERGING MARKETS



NWP £1,103m

Personal	42%
Commercial	58%

*Of total 2011 Group NWP

WHAT WE DO

WE PROTECT PEOPLE AND BUSINESSES AGAINST THE RISKS THEY FACE IN THEIR DAILY LIVES. OUR GLOBAL NETWORK PROVIDES PROPERTY, CASUALTY, MOTOR AND HOUSEHOLD INSURANCE IN AROUND 140 COUNTRIES WORLDWIDE

OUR UNDERWRITERS PRICE RISK

WE ARE COMMITTED TO UNDERWRITING DISCIPLINE AND TECHNICAL EXCELLENCE

Our Personal lines products include

- Motor
- Household
- Pet
- Travel.

Our Commercial lines products include

- Motor
- Marine
- Engineering
- Liability
- Property.

RISK SELECTION

The Board defines the Group's risk appetite, which determines the geographies we operate in and the products we offer. Our underwriters are licensed to write products within this appetite and we regularly review each portfolio of risks to ensure they are performing well or implement corrective measures where required.

REINSURANCE

We maintain a conservative reinsurance programme to minimise volatility in earnings from large losses and catastrophe events. For example, Copenhagen experienced a severe storm in July 2011, during which two months' rain fell in under two hours. Although we are the third largest general insurer in Denmark, we restricted our net loss to around £23m through our extensive reinsurance programme.

RESERVING

The Group continues to adopt a prudent reserving policy for both current and overall reserves. At 31 December 2011, reserves remain significantly to the right side of best estimate and, given our prudent reserving policy, we continue to expect positive prior year development to be a significant feature of the underwriting result.

WE DISTRIBUTE OUR PRODUCTS AND SERVICES

WE FOLLOW A MULTI-CHANNEL DISTRIBUTION STRATEGY

We sell Personal and Commercial lines products through a range of channels around the world.

INTERMEDIARIES

We work with brokers of all sizes. Through our strategic partnerships with the global brokers we write complex international covers. We also work on a more intimate basis with our smaller brokers, assisting their development through direct marketing, training and support. We also distribute our products and services through agents across Emerging Markets and within Scandinavia and Italy.

AFFINITY CHANNELS

We work with partners such as building societies, banks, retailers, motor manufacturers, charities, utilities and unions to offer their customers appropriate insurance products. Through affinity arrangements, we are able to offer a bespoke service to each partner, ranging from full underwriting to marketing support.

DIRECTLY

We distribute our products and services directly to our customers, in person – through high street sales offices and direct sales, over the telephone – through our call centres and on line – through our own websites and through price comparison sites.

OUR BRANDS

RSA

الأهلية AL AHLIA PART OF THE RSA GROUP

LINK4 PART OF THE RSA GROUP

العالمية AL ALAMIYA PART OF THE RSA GROUP

CODAN PART OF THE RSA GROUP

TRYGG HANSA

ANSWER PART OF THE RSA GROUP

Royal Sundaram General Insurance

MORE TH>N PART OF THE RSA GROUP

WE SETTLE CLAIMS QUICKLY AND FAIRLY

WE ARE COMMITTED TO DELIVERING A PROFESSIONAL, FAIR AND SPEEDY CLAIMS SERVICE AT ALL TIMES

PEOPLE

We have highly trained, technically competent people assessed annually against a licensing framework that ensures they are equipped to deal with customers' claims.

CAPABILITY

Claims handling is a key differentiator for both customers and RSA. We have over 4,000 claims handlers across our businesses, around 500 of whom are devoted to handling large and complex claims. We employ specialists such as engineers, surveyors and mariners and this depth of claims expertise is often key in our ability to win business.

DELIVERY

We are committed to delivering timely settlements to our customers and claimants and, through numerous initiatives across the Group, we aim to continually improve the claims experience.

SUPPLIERS

We have close relationships with a network of experts including loss adjusters, engineers and solicitors who work with RSA's own experts to deliver a high quality service to our customers.

LEVERAGING GLOBAL CLAIMS EXPERTISE

We demonstrated our commitment to leveraging global expertise in 2011, when we launched a programme of global claims improvement reviews, designed to find innovative ways to improve the claims experience. 105 reviewers from around the business spent a total of around 9,000 hours working together to share best practice and to identify improvements to take back to their own businesses.

WE INVEST PRUDENTLY

WE FOLLOW A HIGH QUALITY, LOW RISK INVESTMENT STRATEGY

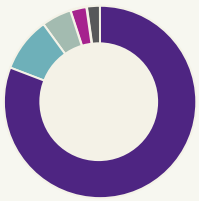
The Group continues to benefit from its low risk investment strategy with around 90% of the total portfolio invested in high quality fixed income and cash, with measured holdings in equities and property.

Our exposure to peripheral European government debt remains limited at £138m, or less than 1% of the total portfolio, the majority of which is held to back the liabilities of our Irish and Italian operations.

The fixed interest portfolio is concentrated on high quality short dated assets with 98% of the bond portfolio investment grade and 74% rated AA or above. The bond holdings are well diversified, with 75% invested in currencies other than Sterling and 60% invested in non government bonds (31 December 2010: 53%).

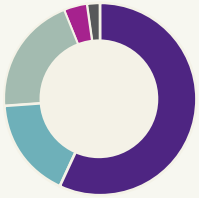
In 2012, we will continue to follow our high quality, low risk strategy.

Investment portfolio (%)



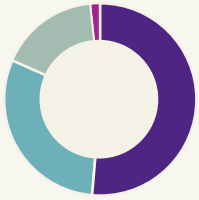
Bonds	81
Cash	9
Equities	5
Property	3
Other inc. Prefs and CIVs	2

Bond portfolio – Credit quality (%)



AAA	57
AA	17
A	20
BBB	4
<BBB	2

Peripheral Europe Sovereign Debt Exposure (£m)



Ireland	71
Italy	42
Spain	23
Greece	2
Portugal	0

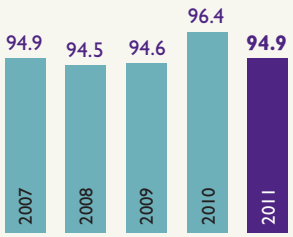
CHAIRMAN'S STATEMENT
CONTINUED PROGRESS IN A CHALLENGING YEAR

On a global basis, 2011 was a challenging year for the insurance industry. It was the costliest year ever in terms of natural catastrophes, earthquakes and weather events.

An estimated US$380 billion of global economic losses were incurred, 60% higher than the previous record year in 2005, of which $105 billion were insured losses. Without insurance, there would have been even greater havoc and significant further impacts on world financial markets. As an industry, we play an essential role in the world economy and at a household level within society, which is why our industry will be around for another 300 years.

How did we perform in this demanding year? Whilst we had exposures on a global basis in Japan, Australia, New Zealand and Thailand, our insured losses were minimised due to our developed global risk and exposure strategies linked to careful use of reinsurance. We did less well in a few areas, with increases in more conventional exposures including weather impacts in Denmark and Ireland and large losses in a number of territories. Adverse weather, following the severe freeze in 2010, although less in total, was still significant in 2011.

Combined operating ratio (%)



The financial highlights of what was a challenging year included

- Good premium growth of 9% driven by both acquisition and organic growth
- Strong operating results with the COR moving from 96.4% to 94.9% against a background of continuing global weather events
- Increased underwriting performance by maintaining our discipline in pricing, risk and sustainable profit
- Improved investment result reflecting the careful management of our portfolio to lessen the impact of low interest rates without diluting investment quality
- The maintenance of a strong IGD surplus at £1.3 billion giving a 2x coverage.

The main non-financial event in the year, was the announcement, at the interims in August, of Andy Haste leaving as CEO and his formal departure in December. We had a well developed succession plan in place and with the added involvement of an externally-led Board selection process we were pleased to appoint Simon Lee, the previous Head of our International Division, as Group CEO.

The effective transition of responsibility had occurred by the end of October. The employment of Simon has led to an opportunity to strengthen our Executive Committee and expand the role of key managers, Mike Holliday-Williams in Scandinavia and Rowan Saunders in Canada. They both have had great success in running these operations within the International Division and will continue to report separately to Simon as CEO.

A further announcement was made in November concerning our CFO George Culmer's intent to take up future employment with Lloyds Banking Group. We were pleased to be able to confirm at our results announcement in February that we had appointed Richard Houghton, currently CFO of Aspen Insurance Holdings Limited, who will commence his role in June. Richard brings wide operational and financial experience of the insurance world. Accordingly, we have agreed to release George to take up his new position after the Annual General Meeting in May. This will allow him to be present at the Lloyds AGM later that month.

The RSA of today has been rebuilt in terms of service, reputation and management since 2003, when the old Royal and Sun Alliance was still effectively two separate businesses, as that name denoted. They were in danger of being overwhelmed by losses, a major capital deficit and had massive exposures in the USA. The strategies to refinance the Company and remove the risks of the USA business were not without risk. They were all achieved.

After the rescue, the more unspoken part of the task was to radically improve all RSA activities and operations, upgrade risk appetite processes, underwriting practices and focus on and develop a coherent portfolio of businesses that could generate a sustainable profit. This has required significant investment in expertise, management and computing technology and services. The ongoing business has performed well and been skilfully piloted in recent difficult times, but is not immune from the effect of uncertain financial markets, recessionary effects on growth and monetary policy aspects depressing financial returns on our £15 billion investment portfolio, necessarily held in the most secure type of financial assets so as to effectively match future liabilities.

Over the last three years, insurers have faced more difficult times. However, even if you take a comparison close to today, what has been achieved since 2003 is still remarkable.

- Market capitalisation up from £1.7 billion to £3.9 billion
- A negative EPS of 19.6p to positive 11.9p
- Losses of £363 thousand to profits of £427 million
- ROE of minus 17.8% to plus 11.6%.

Given these outcomes, the Board wishes Andy and George every success in the future. They both leave with the thanks and appreciation of our Board. Their departure terms reflect the goodwill of us all, the Board and hopefully the shareholders, in marking a job well done. The Board's actions on succession planning have ensured the company maintains an ongoing depth and strength of management in all areas. We continue to be well placed to deal with current global economic and financial circumstances and drive this company forward.

Moving to other Board matters, as first indicated in 2009, our strategy is to add to the Board to ensure continuity of corporate knowledge and experience when we move to a phase of Board recruitments and retirements. As part of this plan, we have added two new Non-Executive Directors and an Executive Director.

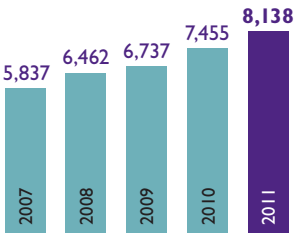
The Non-Executive Directors are

- Jos Streppel, who joins us from Holland, our first non-domiciled Non-Executive Director. Jos has joined the Remuneration Committee

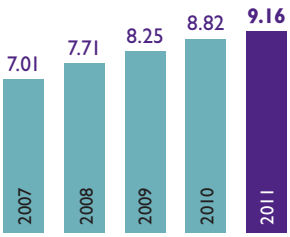
"We continue to be well placed to deal with current global economic and financial circumstances and drive this company forward."

John Napier, Chairman

Net written premiums (£m)



Dividend for the year (p)



Net written premium growth

+9%

Dividend increase

+4%

- Alastair Barbour joins us from a professional audit career and will formally take over the Audit Committee Chair from Edward Lea after the AGM.

Both Jos and Alastair have extensive international insurance industry experience.

On the executive front, Adrian Brown who has been responsible for our UK business will now take up additional responsibility for Ireland and Italy. Adrian has had 23 years experience at RSA and brings additional front line experience to the Board.

A comprehensive external review of Board effectiveness in 2010 was also an integral part of our succession planning and this is reflected by the appointments made and the effective replacements of the CEO and CFO. At the end of the year, the Board carried out a further internal review of our effectiveness consistent with the requirements of the Corporate Governance Code. It also decided now would be an appropriate time to follow the new guidelines on re-electing all directors annually and as such, all directors will stand for re-election this year.

Much has been spoken and written externally on diversity. This is a complex and sometimes divisive subject. My empirical view is that diversity in all its aspects has been a key component of the success of the RSA Board and the Company. Diversity is about much more than a gender debate.

At RSA, we encompass all aspects of diversity including a relatively high ratio of women non-executives and senior executives within the Company. All are appointed on merit. We will continue to adopt this approach as being in the best interests of the effective management of the Company and in the interests of our shareholders. We are a regulated company and as such, all senior appointments including Non-Executive Directors have to meet FSA requirements. The basis of selection allowed is, therefore, different than for an average non-regulated plc.

In recent times, executive pay, particularly annual performance bonuses, has dominated public debate. This is understandable in the wake of the anecdotal evidence that excessive bonuses may have played a major role in the banking crisis, the related obligation put on taxpayers to support the banking sector and the averaged statistical evidence of an increased disconnect between senior management pay generally and FTSE companies' performance over recent years.

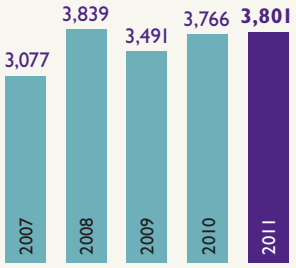
There is a need for more objective analysis and action by individual companies, by industry and by sector. There is no simple generalisation that all bonuses are bad and no bonus is good. The vilification of people doing important and demanding tasks on behalf of taxpayers should be silenced by strong government support in those situations where they themselves have appointed people to such positions.

The words 'excess' or 'unsustainability' should not be restricted to directors and senior management in the corporate sector. The trends in the absolute and relative pay and conditions, comparative investment, inputs, relative outputs and efficiency of the public sector compared to the private sector demand more scrutiny because of their massive scale. Responsibility for these issues rests elsewhere.

I think it essential, however, that every public company plays its role and undertakes to review its pay and remuneration practices. At RSA, we plan such a review in 2012 to ensure that our philosophy of closely aligning reward structures with the longer term interests of shareholders remains a continuing guideline in principle and in practice.

I am pleased to report that Simon Lee, our new CEO, has made a strong start and has "hit the road running". He has completed a reorganisation which has deepened and increased our Executive Committee and further strengthened some aspects of the RSA operational and strategic approach. He brings an outward-facing client focus and value-added approach to the business which complements the strong pricing and risk disciplines we have embedded in the business. Our objective is to make sustainable and satisfactory returns for shareholders by increasing revenue and profitability.

Shareholders' funds (£m)



That brings me to the outlook and dividend. In the more mature economies in Europe, we face a slower rate of growth with general uncertainty over potential sovereign debt impacts still remaining. Despite a reduced rate of global growth, we expect to continue to make progress. We will maintain a prudent reserving and investment approach, continue to leverage our strong global footprint and leading market positions with expert risk pricing, claims handling and execution, and plan to achieve further forward momentum. Much of our essential focus remains unchanged.

On the dividend, while current economic and investment conditions persist, it is prudent to grow the divided at a more modest rate. The Board is recommending an increase in the final divided of 2% to 5.82p, which will give a total dividend of 9.16p up 4% on the prior year. Going forward, the Group is well placed to return to a higher level of dividend growth when investment yields move to more normal levels and economic growth returns.

In conclusion, therefore, 2011 has been an interesting, busy and successful year for the Board and the business. I am particularly indebted to the contribution made by my colleagues on the Board. I would like also to thank everyone, our managers and employees, for their continuing efforts to improve the service standards and performance of the Company. We expect 2012 in market terms to be as challenging as 2011, but we plan to make further progress.

John Napier
Chairman

2011 net written premiums (%)

Overseas	64
UK	36

visit www.rsagroup.com

GROUP CEO'S REVIEW
CONTINUED DELIVERY

In my first report to shareholders as Group CEO, I would like to express how privileged I feel to have the opportunity to lead this business forward. I joined RSA in 2003 and in running the International division, have been a member of the team that transformed the business into the high performing company it is today. I truly believe the Group has qualities and strengths that most of our competitors cannot match and we will build on these foundations to generate even stronger performance.

My objective is to have RSA outperform against peers in each of our local markets and as a Group as a whole. I am confident that we can accomplish this goal.

To help achieve this, I have restructured the business to reflect the significant contribution our Scandinavian and Canadian businesses make to the Group's results. I would like to welcome Mike Holliday-Williams, CEO of Scandinavia, and Rowan Saunders, CEO of Canada, along with Vanessa Evans, our new Group Customer and HR Director, to my executive team. In June 2012, we will also be joined by Richard Houghton as CFO. They are great additions and I look forward to working with the whole team to take the Group to the next level.

A GOOD RESULT IN 2011

In 2011, we delivered a good performance in really tough economic and market conditions, with the industry experiencing a record level of natural catastrophes and continued low investment yields. I am confident that we are well positioned to outperform in the short term and really well placed as economic growth returns.

Group net written premiums rose by 9% to £8.1bn in 2011. Five points of this growth came from our 2010 deals, including GCAN in Canada, 123.ie in Ireland and Tesco Pet in the UK, which all performed ahead of expectations. Rate on renewed business drove four points of premium growth as we continued to take positive rating action across the Group.

We also achieved a significant improvement in profitability. The underwriting result was up by 58% to £375m, with a combined operating ratio of 94.9%, and the investment result was up by 19% to £642m, giving an insurance result of over £1bn, with strong contributions from all regions.

The operating result was up by 38% to £884m and profit before tax was up by 29% to £613m. The underlying return on average equity was 11.6%, an improvement of 1.7 points. Net asset value per share of 104p was in line with 2010.

REGIONAL OVERVIEW

With effect from 1 January 2012, we have restructured the business into four regions, Scandinavia, Canada, UK and Western Europe and Emerging Markets.

Scandinavia

In Scandinavia, premiums were up by 6% to £1.8bn. Personal was up by 5% with growth in Household, Personal Accident and Danish Motor offset by Norway, where the focus was on improving the profitability of the book. Commercial was up by 6%, driven by Marine, Renewable Energy and Norway, which offset the non-renewal of a small number of large accounts in Property and targeted reductions in Workers Compensation in the first six months of the year.

Profitability was once again excellent. We delivered an underwriting result of £264m and a combined operating ratio of 85.4% while maintaining a strong reserve position. The Personal underwriting result was very strong and was driven by Swedish Motor and Personal Accident where retention remains high. In Commercial, the underwriting profit was adversely impacted by storms in July and November, which hit our Property account.

Canada

Canada reported excellent top line growth with premiums up by 19% to £1.5bn, driven by a combination of acquisitions, organic initiatives and rate. Personal premiums exceeded £1bn in 2011 with Personal Broker up by 7%, benefiting from strong rate and retention and led by growth in Household and the Travel book. Johnson again outperformed with 10% growth, 17 new affinity partners and two acquisitions. In Commercial, premiums were up by 50% to £471m, largely as a result of the GCAN acquisition but also from 10% organic growth with strong contributions from Risk Managed and SME.

Canada delivered a record underwriting result of £116m, up 45% year on year despite the Slave Lake fire in May, the second most costly catastrophe in Canadian history.

The integration of GCAN is almost complete, and the business is performing ahead of expectations, delivering 18% premium growth and market-leading profitability in 2011.

UK and Western Europe

In the UK, premiums were up 6% to £3.1bn. This was led by 10% growth in Personal lines, driven by Pet and Household.

In Pet, the Tesco deal is performing ahead of plan with around £130m of premium in its first full year. Home was up 11%, driven by growth in all distribution channels including a strong performance in Affinity, where we developed a new product for building societies. We recently secured a deal with the Home Retail Group which, together with a couple of other deals in the pipeline, will maintain momentum in 2012. In Motor, we continued to focus on profit over growth, pushing hard on rate and premiums dropped by 10%.

In Commercial, we saw growth of 2% with Risk Managed Europe up by 19% and Marine up by 9%. This was offset by a 10% decline in our Regional Mid-Market business where we continued to stick to our guns on price.

The UK underwriting profit was £40m. Personal delivered an underwriting profit of £60m, led by a strong contribution from Household along with a break-even result in Motor. In Commercial, the underwriting loss reduced to £20m. Positive contributions from Marine and Liability were offset by Property, which was impacted by large losses, and Commercial Motor, where a single large contract will continue to be a drag on profitability.

In Italy, it was a disappointing year. Market conditions remain very difficult and it is taking longer to fix the business than we had expected. The underwriting loss was £63m and comprised further deterioration in Motor and reserve strengthening in General Liability. The Motor losses reflect changes to and a wider adoption of the Milan Bodily Injury Tables and adverse experience on large losses.

While I'm not happy with the result, I am convinced we are taking the right action to remediate the business. Over the last couple

"My objective is to outperform against peers in each of our local markets and as a Group as a whole."

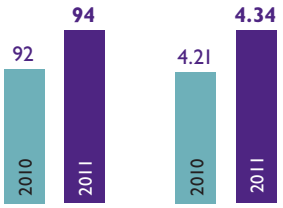
Simon Lee, Group CEO

Underlying return on average equity (%)

11.6%

(2010: 9.9%)

Employee engagement



Regulatory capital surplus (£)

1.3bn

2.0 x the requirement

NAV per share, excluding pension deficit (p)

108p

(2010: 108p)

of years, we have changed the management team, pushed double digit rate increases, improved our risk mix and have cancelled a large number of unprofitable agents. We expect the impact of these actions to significantly reduce losses in 2012 and we now expect the business to be close to break-even in 2013.

In contrast, our Irish business had another strong year, despite the economic conditions, with growth of 16%. 123.ie performed well ahead of expectations with 33% premium growth and we successfully pushed rate across all our main lines of business. Despite the November floods, we generated an underwriting profit of £24m and an excellent COR of 92.6%.

Emerging Markets

Emerging Markets continued its impressive top line performance. Coupled with solid GDP growth in a number of our markets, we drove an increase in net written premiums of 14% to £1.1bn and, including our Indian associate, to over £1.2bn. The underwriting profit was £3m, with Latin America performing well but the overall result being hampered by severe weather events in Thailand and the Baltics.

In Asia and the Middle East, premium growth of 14% to £214m was led by Specialty lines and our businesses in Oman and Singapore. Our Indian associate continued to grow rapidly, with premiums up by 19%.

Across Central and Eastern Europe, growth returned with premiums up by 8%. We remain the number one insurer in the Baltics, maintaining our market leading positions in Lithuania and Latvia. In Estonia, our recent partnership with SEB will build scale in that business.

In Latin America, we had a really good year. We saw continued strong growth, with double digit increases led by Argentina and Brazil, and premiums reached £670m. In the last four years, premiums have doubled in Latin America and we remain very excited about the potential and prospects for the region.

STRONG FINANCIAL POSITION

The Group maintains a strong financial position with a regulatory capital surplus of £1.3bn or twice the requirement.

In recognition of our strong competitive position and capitalisation, S&P upgraded the Group's credit rating to A+ (stable outlook) in February 2012.

SUPPORTING CUSTOMERS

As an insurer, we play a vital role in helping people and businesses recover when the worst happens. Helping customers get their lives back on track is our first priority.

During 2011, we helped customers recover from severe weather events in locations around the world including Ireland, Denmark, Thailand and the Baltics. In addition, the Slave Lake wildfire was the second most costly catastrophe in Canadian history. I am proud of how our staff handled all of these events, and what they did to help our customers get back on their feet as quickly as possible.

In 2011, we also laid the groundwork for the launch of our global Customer Engagement Survey, which will give us a consistent view of how our customers view us. This will help us to understand our customers better and make improvements to the services we offer.

INVESTING IN PEOPLE

I want to create an environment where people are inspired, encouraged and rewarded to work together, develop themselves and be their best.

In 2008, we partnered with Gallup on our staff engagement programme, setting ourselves an ambitious target to achieve upper quartile engagement by 2011. I am pleased to report that we have achieved this. Gallup has described this achievement as 'unprecedented', with most organisations taking five years to accomplish what we have managed in three. We are now the world's 'most engaged insurance company' in the Gallup database and rank in the top three financial services companies globally. In March 2012, our UK business ranked 6th in the Sunday Times 'Best Big Companies to Work For'.

I'd like to take this opportunity to thank our staff for their continued hard work and commitment to serving our customers and driving the business forward.

CORPORATE RESPONSIBILITY

Behaving responsibly and ethically has a positive impact on our people, our communities and the environment in which we operate. Our approach to corporate responsibility remains practical and is focused on three key themes: the environment, road safety and social inclusion.

The launch of RSA's Arctic Challenge in 2011 saw over 10,000 of our employees actively participate to reduce their carbon footprint, develop the best business 'green ideas' and fundraise for WWF or for other green charities. The campaign increased awareness of our partnership with WWF and highlighted the role insurers should play in combating climate change.

	2011	2010	2009	2008	2007
Net written premiums (£m)	**8,138**	7,455	6,737	6,462	5,837
Underwriting result (£m)	**375**	238	386	384	278
Operating result (£m)	**884**	641	777	867	814
Combined operating ratio (%)	**94.9**	96.4	94.6	94.5	94.9
Underlying return on average equity (%)	**11.6**	9.9	13.4	16.4	19.3

In 2011, we extended our work on Road Safety around the world. This included a new eyesight campaign in the UK, encouraging stronger regulation around eyesight tests for driving licence renewals. Our child safety programme was extended to another 40 primary schools in the UK.

Across the Group, we also launched our Global Charitable Programme to support employees who help in their local communities. Employees anywhere within RSA can now apply for matched funding, a charitable grant or a charitable secondment for up to three months. The programme is aimed at helping improve employee engagement, supporting local charitable organisations and promoting RSA in the community.

INDUSTRY AND MARKET OVERVIEW

The industry experienced record natural catastrophe losses in 2011, with earthquakes, a devastating tsunami, destructive floods and severe weather affecting many lives.

We also faced challenging economic times. Global economic recovery lost momentum in the latter part of 2011, with the combination of fiscal policy tightening and the continuing crisis in the Eurozone taking its toll on both business and consumer confidence. Once again, the more heavily indebted economies, such as those in peripheral Europe and the UK, struggled to generate economic growth as they implemented fiscal austerity measures. In contrast, the lower debt economies such as Canada and Sweden generated more solid growth and some emerging market economies continued to perform strongly.

Our portfolio of diversified businesses in both mature and emerging markets is one of our key strengths in enabling the Group to deliver consistent and resilient earnings performance in this challenging environment.

REGULATION

As an industry, European insurers are facing the largest regulatory change experienced in many years, in the form of Solvency II. We continue to make good progress on this and RSA is investing significant time and resources to meet all the requirements of the directive in the proposed time frame.

We welcome the Government's commitment to reforming the practices that have led to a growing compensation culture in the UK and a dysfunctional motor market. We fundamentally believe that wholesale reform is required that includes a market-wide ban on referral fees, changes to the structure of personal injury legal fees and in payments for soft tissue injuries.

STRATEGY

I am confident in our ability to deliver sustained outperformance. We have built a diversified general insurance business and are rightly known for the quality of our people, our focus on technical capability and our track record of delivering operational efficiencies. We have a strong and experienced management team who provide continuity and are determined to build on our existing track record of success.

Retain fundamental strengths

We have transformed RSA since 2003 and, as we move forward, the qualities that have contributed to that success will stay in place. We will remain a pure-play general insurer with a well diversified portfolio of businesses; we will persist with our rigorous focus on underwriting discipline; we will maintain our conservative approach to reinsurance and reserving; we will stick with our high quality, low risk investment strategy; and we will continue to deliver sustainable underwriting profitability.

Build on firm foundations

We are building on firm foundations. Firstly, we have a unique footprint with our portfolio of diversified businesses in both mature and emerging markets which has helped us outperform in both profitability and growth.

In the UK, we have leading positions in both Personal and Commercial lines. This is an extremely competitive market which brings real advantages to the Group in terms of technical expertise and pricing sophistication. However, it has also brought a challenge to deliver sustainable profitability and, while I am pleased with the progress made, there

is more to be done. In Ireland, we have a really well run business which has significantly outperformed its competition over a number of years and will continue to do so.

In Canada and Scandinavia, we have strong positions in attractive and mature markets. These businesses have driven the profitability of the Group and will continue to be significant contributors.

We have an exciting franchise in Emerging Markets with good businesses in our chosen markets. Strong GDP growth and increasing insurance penetration mean that these markets will continue to do well.

Secondly, one of our main sources of competitive advantage is technical capability. Over the years we've recruited some high quality technical specialists as well as invested in 'best in class' training and development.

We have a well deserved reputation for disciplined, high quality underwriting and claims management.

Thirdly, we have a powerful track record of delivering operational efficiencies. Since 2004, we have generated significant annualised cost savings and in 2011, the UK achieved its expense ratio target of around 14% a year ahead of schedule. This rigorous focus on efficiency will continue.

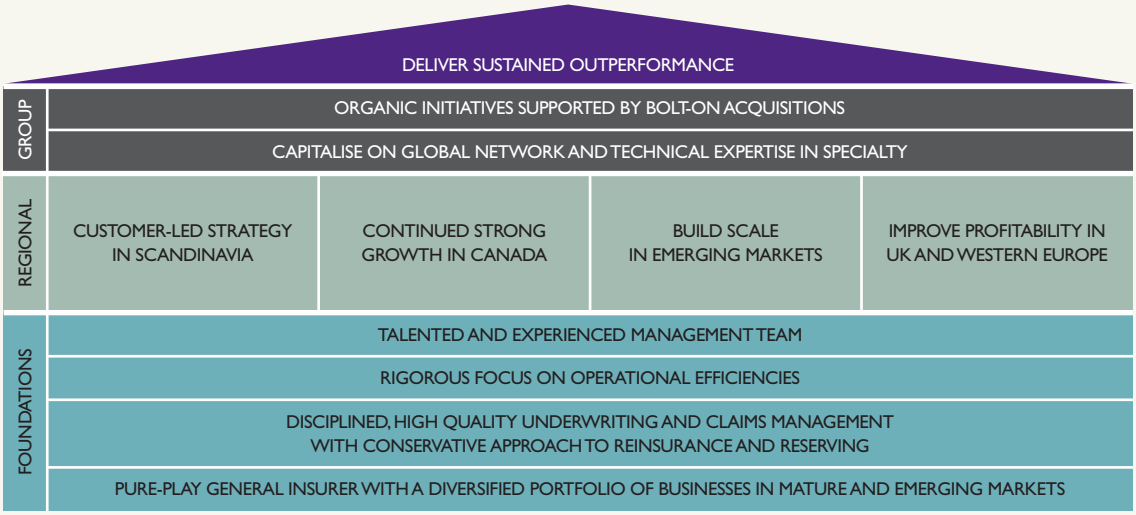
Finally, we have a talented and experienced management team who collectively have driven our success over a number of years.

Diversified Portfolio

One of our key strengths is our diversified portfolio with around 64% of NWP generated outside of the UK. I want to further drive the growth of our overseas businesses while enhancing their already strong profitability.

Scandinavia

Scandinavia is led by Mike Holliday-Williams. Mike has been there for 12 months after a successful period running our UK Personal business. I have been working with Mike on a new strategy which draws upon both the benefits of the Group and Mike's own experience of customer-led initiatives. This will protect our leadership positions in Swedish Motor and Personal Accident and drive improved performance in our Danish and Norwegian operations. We will build out our sub-scale Specialty franchise and generate more business through our global broking partners Willis, AON and Marsh. We are determined to take advantage of our position as the only scale player in Scandinavia with a global presence.



Canada

In Canada, Rowan Saunders has done a great job for a number of years, taking us from number ten to number three in the market, while producing market-leading profitability. The priorities I have given Rowan are to continue to extract value from the GCAN deal, strengthen the geographical footprint of our business, including greater scale in Quebec, and build on our outstanding track record at Johnson, where I would expect continued double digit growth.

Emerging Markets

In Emerging Markets, Paul Whittaker will be looking to build scale and capitalise on the potential of these markets. Growth will be led by organic initiatives but will also be supplemented by bolt-on acquisitions. We have previously set a target of generating £2.2bn in premiums by 2015. I will be working with Paul to see how we can beat this.

UK and Western Europe

In the UK and Western Europe, Adrian Brown and I have been re-positioning the UK to maximise its contribution and make it a more focused business. We will do this by growing in areas of strategic advantage including Home, Pet and Risk Managed. In Motor, we will focus on fewer segments and in Commercial Property we will convert our leading market share into sustainable profit. We will also take a more targeted approach to our broker distribution.

In Italy, the focus will be on fixing the business and returning it to profit. Whereas in Ireland, we will create strong value from 123.ie and continue to deliver market-leading profitability and growth. With these steps, I am confident that our businesses in the UK and Western Europe will come to contribute much greater levels of profitability.

Across the Group, we have a range of actions that will drive the business forward and continue to deliver strong profitability. In terms of overall shape, last year we set a target for overseas premiums to be around 70% of total NWP by 2015. I now want to be close to that in 2014. I also want to make clear that this is a staging post rather than an end in itself.

Product Diversification

Another of our strengths is our product diversification, split roughly half and half between Personal and Commercial. Within Personal, we've made good progress, growing the top line by around 50% since 2007.

In Commercial, growth has been more modest. The exception is Specialty, which has performed strongly. Even so, we have yet to fully capitalise on our global network and technical expertise. I really want to focus on developing our strengths in Marine, Renewable Energy, Construction & Engineering and Risk Managed business.

M&A

This has been a key part of the way we have built the Group over the past few years and we have had particular success in International with deals such as 123.ie, GCAN and the Codan minority buy-out. Going forward, my focus will be on bolt-on acquisitions.

Summary

I remain pragmatic about the challenges and opportunities that we face. Where I see underperforming businesses or lines of business with no viable routes to outperformance we will take decisive action.

With the combination of the strong platform we've built and the actions we are now emphasising, I'm confident that we will continue to outperform and take the Group to the next level.

CONFIDENT OUTLOOK

In terms of 2012, it is clear that the external environment is going to remain tough, with record low yields and subdued economic growth in some of our markets. Despite this, we remain confident of driving another strong operating performance and expect to deliver good premium growth, a combined operating ratio of better than 95%, and investment income of around £500m.

Looking further ahead, we have a successful and diversified portfolio of operations, a high quality, low risk investment strategy, an excellent and experienced management team and a clear strategy to drive the Group forward. We have a resilient business and are strongly placed as economic growth returns and yields improve.

Finally, I would also like to thank Andy Haste, who led this business so well for many years and George Culmer, who has been invaluable to both the business over the longer term and to me personally during my transition to Group CEO. It has been a pleasure to work with both of them over the last eight years and I wish them all the best for the future.

Simon Lee
Group Chief Executive

visit www.rsagroup.com

GLOBAL SPECIALTY LINES

OUR GLOBAL SPECIALTY LINES BUSINESS SUPPORTS THE INSURANCE NEEDS OF LARGE AND SPECIALIST BUSINESSES AROUND THE WORLD. OUR PHILOSOPHY IS SIMPLE, IT'S ABOUT UNDERSTANDING OUR CUSTOMERS' BUSINESSES, INSIDE OUT AND BACK TO FRONT.

This means we can provide solutions tailored to suit each individual business' requirements. We bring our experience to bear at every stage, providing the right people and expertise for the lifetime of the partnership.

OUR SPECIALIST EXPERTISE

Our reputation has been built upon consistent delivery from our highly skilled and market-leading Underwriting, Operations, Claims and Risk Management teams, as well as a deep expertise in all lines of business and specific industry sectors.

With our expertise in complex, non-conventional arrangements, we are able to arrange bespoke, multinational insurance programmes, giving customers consistency in cover while complying with local regulations.

Global Specialty Lines is organised into these areas of expertise

- Construction, Engineering and Renewable Energy
- Marine
- Large and Risk Managed businesses.

All of our specialisms are supported by our dedicated team of risk engineers, who identify and assess the customers' risks and design customised and comprehensive risk improvement programmes.

Global Specialty Lines is represented in most of our key RSA operations around the world, utilising our network of partners to deliver solutions locally in around 140 countries, ensuring we can match the global footprints of our customers.

SCANDINAVIA

WE ARE THE THIRD LARGEST INSURER IN DENMARK AND SWEDEN, WITH A GROWING PRESENCE IN NORWAY

KEY STRATEGIES

Our Scandinavian business has been a key driver of the Group's profitability in recent years. Going forward, we expect to continue to deliver a strong underwriting result. We will look to protect our leadership positions in areas such as Motor, Personal Accident and Renewable Energy while improving profitability in Denmark and Norway. As well as this, we plan to fully capitalise on the opportunities in Specialty and with global brokers that arise from being the only scale player in the region with a global presence.

Reflecting this, the strategic priorities set by the management team include

- **Increase growth in each of our businesses and improve profitability**
  We aim to grow profitably in our target core segments, to increase our business with key brokers and to strengthen our position within focus areas such as Care, Bancassurance and key target segments in Commercial lines

- **Improve the customer experience**
  We aim to define more clearly the sales, service and claims promises for our customers and to deliver them more consistently every time. We will focus on retaining our existing customers and improve our customer proposition to target new ones

- **Improve operational efficiency with the right systems and processes**
  We will continue to invest in upgrading our sales, claims and policy and administration systems to make it easier for customers to deal with us

- **Invest in our people**
  We already deliver excellent leadership and technical training to our people and have market-leading people engagement. We aim to improve this further through our increased customer focus.

2011 OVERVIEW

In 2011, our Scandinavian businesses performed strongly. Net written premium grew by 6% to £1.8bn (2% at constant exchange), the underwriting result was an excellent £264m and the COR was 85.4% despite a cloudburst over Copenhagen in July, during which two months' rain fell in two hours, and storms across Scandinavia in November.

Commercial lines

Net written premiums are up by 6% (3% at constant exchange) to £842m, with particularly strong growth in Renewable Energy, Marine and Norway. Growth in Norway is principally from Care, supported by a new agreement with the agent Vertikal, which extended our distribution network.

The underwriting result was £16m. Motor and Workers Compensation again performed well, though the Property business was impacted by adverse weather.

Personal lines

Net written premiums grew by 5% to £982m (up by 1% at constant exchange).

Premium growth was driven by strong performances in Danish Motor and Swedish Personal Accident, which was supported by the launch of a new product during 2011. This was partly offset by Norway where our main focus was on improving the profitability of the portfolio.

There was continued good growth momentum in Danish Bancassurance and our distribution capacity was strengthened in October 2011, when we launched our Household insurance offering with SEB, the second largest bank in Sweden.

The underwriting result was up by 25% to £248m despite the adverse weather, driven mainly by another strong performance from Swedish Personal Motor and Personal Accident, where we have strong customer retention.

MARKET CONDITIONS

In Scandinavia, early indications were that there would be some economic recovery during 2011 though, as with elsewhere in Europe, the recovery faded in the latter part of the year. The Scandinavian insurance market remains stable and attractive.

Against this backdrop, we continued to deliver strong profitability and maintained good top line momentum in our target growth areas.

CUSTOMER

In 2011, Scandinavia launched its Think!Customer strategy. An important part of this is the Brilliant Service programme, through which customer research and feedback from partners and front line staff has been used to better understand customers' needs. This has led to the development of a customer dashboard and delivery of actions to improve the customer experience. We are already seeing the benefit in the business, with improvements to customer satisfaction and retention.

"Scandinavia has been a key driver of the Group's result in recent years and we expect to continue to deliver strong underwriting profitability."

Mike Holliday-Williams, Chief Executive, Scandinavia

PEOPLE

Staff engagement is important to the success of the business. In 2011, we continued to invest in a wide range of technical and vocational training for our staff and we have had great involvement from them in events such as our 'health' and 'climate' weeks. We continue to complete the Gallup Engagement survey, where we again saw a significant improvement. Our Think!Customer strategy is about driving our people agenda, as we focus on recruiting and retaining people with a real customer mindset.

2012 OUTLOOK

In 2012, real GDP growth is expected to remain positive but at a low level in Denmark and Norway. The economic slowdown is also expected to have an impact on Sweden for the first time.

Trading conditions are therefore expected to continue to be challenging, although less so than in some other parts of Europe. Despite this environment, we are confident of delivering our new strategy and continuing to deliver strong underwriting profitability in 2012.

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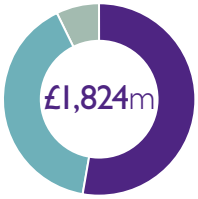
2011 net written premiums (%)

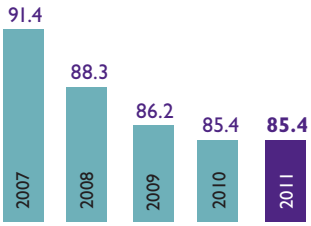
Personal	54
Commercial	46

2011 net written premiums (£m)

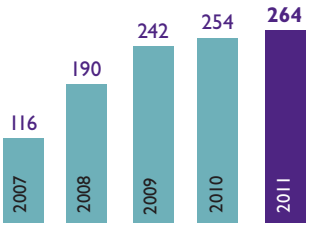


Sweden	957
Denmark	733
Norway	134

Combined operating ratio (%)



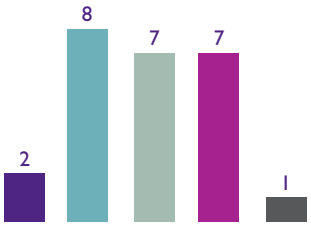
Underwriting result (£m)



HIGHLIGHTS

- Mike Holliday-Williams appointed as CEO, after a successful period running UK Personal lines business
- Strategic priorities refreshed, giving even greater focus on customers
- Total NWP growth of 6% to £1,824m
- Personal lines growth of 5%, driven by Household, Personal Accident and Danish Motor
- Commercial lines NWP growth of 6% driven by Renewable Energy, Marine and Norway
- An excellent underwriting result of £264m and COR of 85.4% despite adverse weather
- Net loss of c£35m from Copenhagen cloudburst in July and November storms.

Rate movement* (%)



- Personal Motor
- Personal Household
- Commercial Motor
- Commercial Liability
- Commercial Property

*Movement in renewal rate for December 2011 v December 2010

CANADA

WE ARE THE THIRD LARGEST GENERAL INSURER IN THE CANADIAN MARKET, OPERATING AS RSA THROUGH BROKERS AND AS JOHNSON FOR DIRECT BUSINESS

KEY STRATEGIES

In 2011, we continued to focus on sustainable, profitable growth, delivered through five core strategies

- A business value proposition that allows us to be an end-to-end solution for our partners and customers
- Targeted acquisitions focusing on bolt-on transactions
- Maintaining our focus on affinity business in Johnson
- Rigorous commitment to underwriting discipline
- Expanding our appetite in our core specialised segments through the development of new products.

2011 OVERVIEW

During 2011, RSA Canada continued to outperform its peers through a combination of acquisition and organic growth across both Commercial and Personal lines.

Net written premiums grew by 19% (19% at constant exchange) to £1,483m, driven mainly by the GCAN acquisition, which was completed in January 2011, supplemented by strong growth in Johnson, Personal Broker and other Commercial lines.

We delivered a record underwriting result, up by 45% to £116m and our COR was 91.6% despite the Slave Lake fire in May, which was the second largest insured loss in Canada's history.

Commercial lines

Premiums grew by 50% to £471m (50% at constant exchange) driven by the acquisition of GCAN, which contributed around 40 points of the growth, retention and rate. Property was up by 54% and Liability up by 79%, both driven predominantly by the GCAN acquisition, while our Motor portfolio grew by 28% supported by excellent retention.

We broadened our appetite in the SME segment during 2011, with the launch of a refreshed product and a new e-trading platform that positions us well for growth in 2012.

In terms of underwriting result, Commercial lines delivered another strong performance. The underwriting profit for the year was £42m, benefiting from the acquisition of GCAN and the COR was 89.8%.

Personal lines

Net written premiums grew by 9% to £1,012m (9% at constant exchange) driven by strong growth across both Johnson and Personal Broker.

Our underwriting result also continues to benefit from improved underwriting sophistication and segmentation. The Personal lines underwriting result was a very strong £74m and the COR was 92.3%, despite incurring a net loss of £11m from the Slave Lake fire. This was offset by improved loss ratios within our Motor portfolio resulting from reforms enforced by the Province of Ontario during 2010.

Johnson

Our Direct business had another strong year with continued double digit top line growth to £555m, driven by strong new business in Household and Motor, excellent retention, rate and the addition of 17 new affinity partners during the year.

Johnson also completed two acquisitions and advanced its corporate partnership strategy with the announcement in the fourth quarter of a new relationship with Canadian Tire, a leading national retailer.

Personal Broker

Premiums grew by 7% (7% at constant exchange) driven primarily by rate and key account wins with global brokers in Property.

During the fourth quarter of 2011, we launched our Private Client Insurance offering tailored for high net worth customers, which evolves our advice based customer strategy and positions us well for the coming year.

We continued to expand our Personal Specialty Insurance offering with the acquisition of etfs, a large Travel insurer, which solidifies RSA's position as a top three Travel insurer in the Canadian market.

MARKET CONDITIONS

Canada continued to weather the global economic downturn, maintaining a strong credit rating and high employment levels, while the dollar continued to appreciate against major currencies. GDP growth, while low, did remain in positive territory.

CUSTOMER

In 2011, we implemented an upgraded Home and Motor system that improves customer service and reduces transaction times. As a result of its strong customer focus, Johnson was awarded some of the highest customer service scores in Canada by J.D. Power and Associates.

"This was a great year for Canada, as well as successfully integrating GCAN, we became the third largest general insurer in the Canadian market, up from number 10 five years ago."

Rowan Saunders, Chief Executive, Canada

PEOPLE

In 2012, RSA Canada has moved its Toronto Head Office into a new, environmentally-certified building, creating a work environment that promotes engagement and fosters innovation for our employees.

TECHNICAL EXCELLENCE

The acquisition of GCAN has broadened our product offering in line with the rest of the Group, expanded our technical expertise and strengthened our position in the Canadian Large Commercial and Specialty market, positioning us as a top five Commercial insurer. The integration is almost complete and synergies between RSA and GCAN have had a positive impact on both retention and new business prospects.

2012 OUTLOOK

2011 was a great year for RSA Canada, as well as successfully integrating GCAN, we became the third largest general insurer in the market, up from number 10 five years ago.

By focusing on driving further value from the acquisition of GCAN, strengthening the geographical footprint of our business and building on Johnson's outstanding track record, we are confident of delivering continued strong growth and profitability in 2012.

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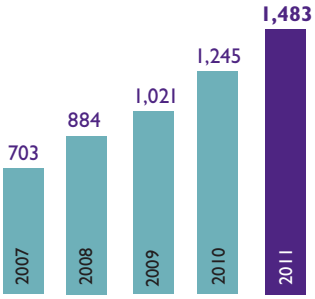
Net written premiums (£m)



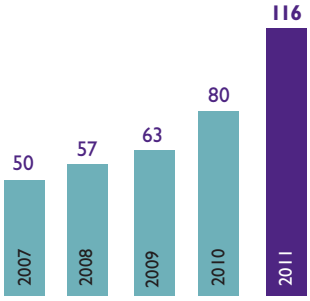
HIGHLIGHTS

- Became the third largest insurer in Canada
- NWP growth of 19% to £1.5bn
- Commercial lines NWP growth of 50% due mainly to GCAN
- Johnson growth of 10% with 17 new sponsorship groups and two acquisitions
- Personal Broker NWP growth of 7% driven by Household
- A record underwriting result of £116m and COR of 91.6% despite Slave Lake
- GCAN integration almost complete.

2011 net written premiums (%)

Johnson	37
Personal Broker	31
Commercial	32

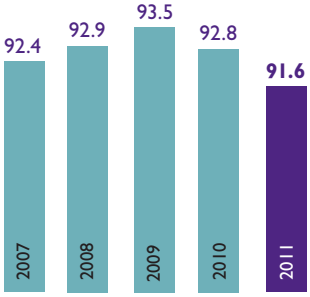
Underwriting result (£m)



2011 underwriting result (%)

Johnson	32
Personal Broker	32
Commercial	36

Combined operating ratio (%)



UK AND WESTERN EUROPE

WE ARE ONE OF THE UK'S LARGEST COMMERCIAL AND PERSONAL LINES INSURERS WITH A REPUTATION FOR TECHNICAL EXCELLENCE. WE ARE THE SECOND LARGEST INSURER IN IRELAND, WHERE WE OUTPERFORM THE MARKET ON BOTH THE TOP AND BOTTOM LINE. IN ITALY, WE HAVE A NICHE BUSINESS, FOCUSED MAINLY ON MOTOR

KEY STRATEGIES

UK

The UK remains our most competitive market and our strategy of targeting profitable growth and withdrawing capacity in areas where we cannot achieve our target returns is unchanged.

We are repositioning the business to maximise its contribution to the Group and make it more focused. We plan to deliver improved underwriting profitability by focusing on areas where we have a strategic advantage such as Home, Pet, Marine and Risk Managed. In Motor, we will target fewer segments, while in Commercial Property we will work to convert our leading market share into sustained underwriting profitability. Our distribution will also become more targeted as we focus on a smaller number of key intermediaries.

Western Europe

The remediation of Italy remains a priority and the management team continues to take extensive action to achieve this.

In Ireland, we look to drive strong value from 123.ie and maintain our market-leading position.

2011 OVERVIEW

UK

We delivered a good top line result, with net written premiums up by 6% to £3.1bn, driven by growth in both Commercial and Personal.

The underwriting profit of £40m benefited from both management actions and improved weather and compares to a loss of £95m in 2010, which was impacted by the winter freeze.

We remain committed to cost control and have achieved our target expense ratio (excluding commissions) of around 14% a year ahead of schedule.

UK Commercial

Net written premiums of £1,723m were up by 2% on last year, driven by strong growth in our Specialty business, with Marine up by 9% and European Risk Managed up by 19%. Growth of 9% in Motor reflects the phasing of a large three year contract and, excluding this contract, premiums reduced by 15%.

The underwriting loss of £20m improved compared with last year and includes strong performances in Marine and Liability offset by Property and Motor. In Commercial Motor, the COR improved by 4.9 points to 104.8%, however, losses on a significant contract will continue to act as a drag on the result going forward.

UK Personal

Our track record of strong top line growth continued in 2011, with premiums up by 10% to £1,364m driven by the Tesco Pet deal and Household partially offset by Motor, which remains very challenging.

In Pet, premiums more than doubled to £197m with Tesco Pet exceeding expectations and generating around £130m of premiums.

Household premiums are up by 11% due to strong retention and rate, the acquisition of Oak Underwriting in April 2011, which specialises in high net worth insurance, and the development of a new product for building societies. In MORE TH>N Motor, we reduced capacity whilst increasing rates and continuing to focus on strong fraud controls at both the application and claims stages.

Our Affinity business continues to grow and our reputation as a supportive and innovative partner has enabled us to build a healthy pipeline of opportunities. We recently announced a new partnership with Home Retail Group which will help drive further momentum in 2012.

We delivered a much improved underwriting result of £60m led by Household, with Motor breaking-even as expected following continued management action.

Italy

The market remains challenging, however, the underwriting loss of £63m was disappointing. The result was driven by adverse prior year development in Motor and General Third Party Liability caused by changes to and a wider adoption of the Milan Bodily Injury Tables and large losses. We continued to take action to remediate the business, significantly reducing volumes, cancelling contracts with underperforming agents and pushing through double digit rate increases.

Ireland

Net written premiums grew by 16% to £353m driven by the acquisition of 123.ie, which generated premiums of £81m. The underwriting result was £24m and the COR 92.6% driven by a strong Personal lines result and despite significant flooding in November 2011.

MARKET CONDITIONS

The UK remains one of the Group's most competitive markets. Price comparison sites continue to expand beyond Motor, growing in Home and Pet. Commercial lines also remains tough, with a reduction in the volume of new business coming onto the market.

Both Ireland and Italy's economies had a tough 2011 and we expect the resultant spending cuts to have a considerable impact in 2012.

CUSTOMER

We continue to put customers at the centre of everything we do. In the UK, we now offer our Personal customers a single point of contact for their policy and claims queries, to make their experience with us as easy as possible.

"With the action we are taking, I'm confident that the UK and Western Europe will come to deliver greater levels of profitability."

Adrian Brown, Chief Executive, UK and Western Europe

In UK Commercial we continue to develop our broker relationships, launching e-Promise as a direct result of SME broker feedback.

PEOPLE

Our UK business was recently ranked 6th in the Sunday Times 'Best Big Companies to Work For' and we're one of only 17 companies within Gallup's database of companies employing more than 1,000 people to achieve world-class engagement.

TECHNICAL EXCELLENCE

Our UK business continues to build on its reputation for technical excellence and in 2011, won the Insurance Times 'Claims Initiative of the Year' for our industry-leading Home Claims Customer Tracker, which enables us to deliver a smoother service, improving the customer experience, and gives us greater control over our claims costs.

OUTLOOK

In the UK, we are encouraged by indications that the Government is going to make regulatory changes which will improve what has become a dysfunctional Motor market. More broadly, we will continue to re-position the business to make it more focused and maximise its contribution to the Group's underwriting profit.

In Italy, we expect losses to be significantly reduced in 2012 and the business to be close to break-even in 2013. In Ireland, we expect to continue to outperform peers and maintain our market-leading positions.

With the action we are taking, I'm confident that the UK and Western Europe will come to deliver greater levels of profitability.

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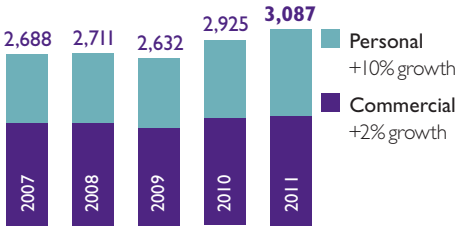
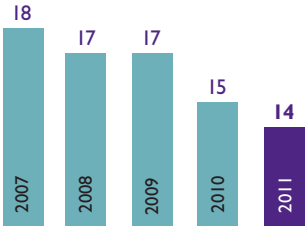
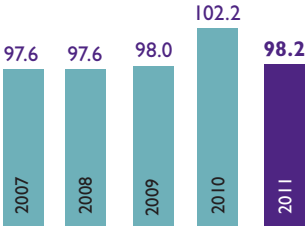
UK net written premiums (£m)



UK expense ratio (%)



UK combined operating ratio (%)



Ireland net written premium growth*

16%

* Reported

Ireland combined operating ratio

92.6%

(2010: 90.9%)

UK HIGHLIGHTS

- NWP up 6% with growth across Personal and Commercial
- Underwriting profit of £40m
- Achieved expense ratio of c14% a year early
- Ranked 6th in Sunday Times 'Best Big Companies to Work For'
- Won Insurance Times 'Claims Initiative of the Year'
- Repositioning the business to become more targeted and focused.

UK COMMERCIAL

- Net Written Premiums grew at 2% to £1,723m
- Underwriting loss of £20m, good performance in Marine and Liability offset by Motor and Property.

UK PERSONAL

- Net Written Premiums grew at 10% to £1,364m
- Pet continues to grow strongly with Tesco delivering c£130m NWP
- Underwriting profit of £60m led by Home.

ITALY

- Underwriting loss of £63m
- Taking the right action to remediate the business
- Expect losses to be significantly reduced in 2012 and to be close to break-even in 2013.

IRELAND

- NWP growth of 16% due mainly to the acquisition of 123.ie
- Excellent COR of 92.6% despite the floods in November
- Expect to maintain market-leading position.

EMERGING MARKETS

EMERGING MARKETS OPERATES ACROSS 21 COUNTRIES WITH LEADING POSITIONS IN LATIN AMERICA, ASIA AND THE MIDDLE EAST AND CENTRAL AND EASTERN EUROPE

KEY STRATEGIES

We remain committed to delivering profitable growth. We aim to achieve this through expanding distribution, ensuring disciplined underwriting and strong control whilst improving operational performance.

We focus on markets where we can establish a meaningful presence, either in overall market share or in segments where we have a competitive advantage.

Our organic strategy is supported by targeted acquisitions, which bring us scale or enhanced technical capability in a market or segment.

Our strategy continues to focus on Affinity, Specialty, Motor, Marine and Small and Medium Enterprises (SME). In each of these areas we develop solutions which can be replicated across our regions effectively and efficiently.

2011 OVERVIEW

In 2011, we set our target for Emerging Markets premium to double to around £2.2bn by the end of 2015 and we remain on track to achieve this.

Net written premiums are up by 14% to £1,103m (15% at constant exchange) and including our Indian associate, total premiums are £1,241m.

Throughout the year we have continued to maintain underwriting discipline despite intense competition. Where necessary, we have taken strong pricing action to achieve our target returns and we have maintained a tight grip on expenses. Our underwriting result of £3m (2010: £12m) reflects a strong performance from Latin America offset by the Baltics and Asia and the Middle East, which were impacted by large and weather losses, including the floods in Thailand and Oman. The COR of 98.7% was in line with last year.

Latin America

Premiums are up by 17% to £670m (18% at constant exchange), with double digit growth in five countries. Argentina and Brazil grew particularly strongly, with premiums up by 42% and 22% respectively.

Central and Eastern Europe

Premiums are up by 8% to £219m (8% at constant exchange). Growth returned to the Baltics during 2011 and we maintained our market-leading position. Our Direct businesses in Poland, Russia and the Czech Republic now insure over 400,000 vehicles.

Asia and the Middle East

Premiums are up by 14% to £214m (16% at constant exchange), with Oman up by 48%, driven by the acquisition in 2010 of Al Ahlia and strong growth in Specialty across the region.

Our Indian associate grew by 19% to £138m (25% at constant exchange) mainly driven by Motor.

STRATEGIC PRIORITIES

Affinity continues to be a key growth driver in Latin America, where we signed 17 new deals in 2011 and in Central and Eastern Europe, where we signed three new distribution partnerships.

In Specialty, Asia Middle East grew premiums by 24% and our Latin American Engineering business grew by 15% in 2011.

In Motor, we continue to focus on pricing sophistication to deliver competitive advantage and continue to invest in specialist pricing resources.

In Marine, premiums are up 21% and we continue to hold market-leading positions in a number of our territories including Brazil, where premiums grew by 26%.

In SME, we are focusing on streamlining our processes and propositions, making it easier for brokers and customers to work with us.

MARKET CONDITIONS

In 2011, improved market conditions prevailed in most of the countries in which we operate. In Latin America, unemployment rates were at historical lows and consumer demand continued to increase in each of our markets. Across Asia and the Middle East, economies grew healthily. GDP grew across the Baltics and unemployment levels stabilised.

PEOPLE

Talented people are key to our success and we continue to invest in our people through technical and management development programmes. There are currently 44 Emerging Markets employees participating in the Group's programmes.

We continue to promote international mobility to give our developing talent the opportunity to gain experience in other markets and support the accelerated deployment of capability from developed markets. This can take the form of short term secondments as well as longer term transfers. We currently have 36 staff on assignments outside of their home countries across Emerging Markets.

This focus on talent development helps provide a strong pipeline of leadership talent and I'm pleased to say that 9 of our 21 business CEOs were promoted from previous roles within the Group.

"Emerging Markets continues to deliver excellent top line growth and we remain confident of achieving our Net Written Premium target of £2.2bn by 2015."

Paul Whittaker, Chief Executive, Emerging Markets

TECHNICAL EXCELLENCE

We have enhanced and aligned our underwriting, claims and risk engineering technical capabilities to our target growth areas. We have recruited additional expertise focusing on bancassurance, retail and utility segments in Affinity. In Specialty, we have enhanced our proposition with dedicated risk consultants, who are specialists in the engineering segment. In addition, the skills of senior underwriters have been further enhanced through advanced technical training with their counterparts across the RSA Group.

2012 OUTLOOK

Latin America remains buoyant and, as the largest region in the Emerging Markets portfolio, we are excited about the opportunities this presents.

In contrast, economic recovery in Central and Eastern Europe is expected to slow down in 2012 as a consequence of the Eurozone crisis. We will look to build on our leading positions in this market.

In Asia and the Middle East, we expect Specialty to perform well as governments continue initiatives to stimulate domestic economies.

Emerging Markets offers huge growth potential for the Group and we will continue to invest in the region. We are confident of achieving our net written premium target of around £2.2bn by the end of 2015 and are looking to accelerate this.

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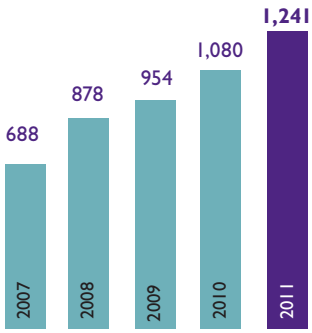
NWP with Indian associate (£m)

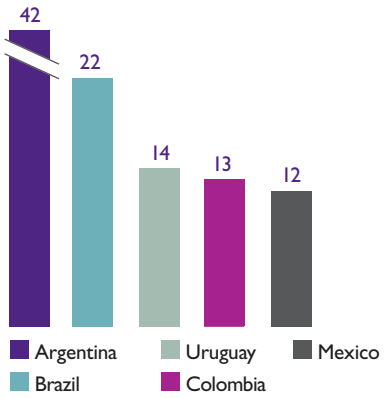


Combined operating ratio (%)

98.7%

(2010: 98.7%)

2011 Latin America NWP growth* (%)



* constant exchange

CEE Direct vehicles insured

400,000

(2010: 340,000)

EMERGING MARKETS

- NWP growth of 15%
- COR of 98.7% impacted by severe weather
- On track for £2.2bn NWP by the end of 2015.

LATIN AMERICA

- Latin America net written premium growth of 17%
- Argentina, Brazil, Colombia, Mexico and Uruguay all delivered double digit growth
- Won 17 new Affinity deals in 2011.

ASIA AND THE MIDDLE EAST

- Asia Middle East grew by 14%
- Oman grew 48% due to the acquisition of Al Ahlia in May 2010
- Delivered strong NWP growth in Hong Kong and Singapore Specialty lines
- India grew at 19% with continued growth in the Motor market.

CENTRAL AND EASTERN EUROPE

- Central and Eastern Europe grew by 8%
- We have maintained our market-leading position in the Baltics
- Direct businesses across Poland, Russia and the Czech Republic grew by 9% and we now insure over 400,000 vehicles.

FINANCIAL REVIEW

A GOOD PERFORMANCE IN CHALLENGING CONDITIONS

RESULTS OVERVIEW

In 2011, the Group delivered a good result in challenging conditions. Despite historically low investment yields and record levels of catastrophe losses for the industry, we delivered premium growth of 9%, a 58% increase in the underwriting result to £375m, a COR of 94.9% and a 19% increase in the investment result to £642m.

NET WRITTEN PREMIUMS

Net written premiums were up by 9% to £8.1bn (8% on constant exchange), with 5% growth driven by 2010 deals including GCAN, 123.ie and Tesco Pet. Rate on renewals has added 4 points as we continued to take action across the Group. Volumes were marginally down, with reductions in UK Personal Motor and Regional Mid-Market Commercial offsetting growth in Emerging Markets, Canada and Specialty lines. Overall volume reductions were offset by a 1% benefit from foreign exchange.

OPERATING RESULT

The operating result was up by 38% to £884m (2010: £641m) with the movement on the prior year due primarily to the improved underwriting result.

Underwriting result

The underwriting result was up by 58% to £375m (2010: £238m) with a current year underwriting profit of £146m (2010: underwriting loss of £29m) and a prior year profit of £229m (2010: £267m). The combined operating ratio (COR) of 94.9% was 1.5pts better than 2010.

The current year result again benefited from continued rate and management actions of around £240m, which was ahead of claims inflation, of around £140m. Large losses represented around 7pts of the loss ratio and were £55m higher than the prior year, despite 2010 including the Chilean earthquake net loss of £30m. Weather accounted for 2.4pts of the loss ratio and was around £130m better than 2010. This, however, was still worse than expected, particularly in the second six months of the year when weather accounted for 3.4pts of the loss ratio, due to the floods in Denmark, Ireland and Thailand.

2011 saw a record level of natural catastrophe losses across the industry. The Group, however, benefited from its focus on underwriting discipline and prudent reinsurance programme. The net impact of the earthquakes in Japan and New Zealand and the flooding in Australia in the first quarter was around £12m, the Scandinavian storms in July and November were around £35m, the floods in Ireland and Thailand were £24m and £17m respectively and in Canada, the Slave Lake fire cost £11m.

The prior year result of £229m reflected positive run off from all regions and includes another strong contribution from International, with profits in Swedish Personal lines, Danish Liability and Canadian Motor and Liability.

Looking at the prior year result by accident year, 2010 has shown initial adverse deterioration of £36m, which primarily comprised £17m from Italy and £13m of late reported claims in the UK, from the winter freeze. We continue to see positive development across the earlier years and would highlight positive recent trends in the 2006 to 2009 accident years, which is after significant negative development in Italy. The 2001 and prior accident years have contributed significantly to the overall result. This development was mainly driven by Scandinavian Personal lines and Workers Compensation, as well as UK Marine. Across the other years, together with Scandinavia, we've seen consistent positive contributions from UK Commercial lines and Canadian Motor and General Liability.

The Group continues to adopt a prudent reserving policy for both current and overall reserves and, given our prudent reserving policy, we continue to expect positive prior year development to be a significant feature of the underwriting result.

Investment result

The investment result increased by 19% to £642m and comprised investment income of £579m and total gains of £157m offset by the discount unwind of £94m.

Investment income of £579m was up by 2% and benefited from continued action to mitigate the impact of falling yields, as well as a number of exceptional items including a £25m rent settlement in Denmark, around £10m from a combination of stronger Swedish index-linked income due to higher inflation levels and one-off dividends from equity and preference share holdings.

The average underlying yield on the portfolio (excluding the yield on the ADC funds withheld account) was 3.9% (2010: 3.8%). Excluding one-offs, the average underlying yield was 3.6% with a 1.3% return on cash assets and 3.8% on the remainder of the portfolio.

In 2012, investment income is currently expected to be around £500m, which after excluding one-offs and the income on the ADC, represents a decline on the portfolio of just under 7%, reflecting the ongoing variance between maturing and reinvestment yields.

"The Group is confident of delivering continued premium growth and sustainable underwriting profitability."

George Culmer, Chief Financial Officer

Total gains in 2011 of £157m were higher than anticipated and mainly comprise gains on the £430m of equities we sold during the year.

In 2012, we will restate the consolidated management income statement to exclude total gains from the operating result. Given the inherent volatility of investment gains, this action will provide greater transparency and predictability to the operating result.

Other activities

Other activities of £133m were broadly in line with last year and included central costs, investment expenses and the ongoing investment in our Indian associate and our direct operations in Central and Eastern Europe.

Other movements

Other movements which included interest, amortisation and Solvency II costs were up by 72% to £261m (2010: £152m) driven by increased amortisation and Solvency II costs. Interest costs of £117m were in line with the previous year (2010: £118m), while Solvency II costs were £30m (2010: £5m) and we would expect a similar charge in 2012. Amortisation costs increased by £85m to £114m (2010: £29m) and included goodwill write-downs in UK Commercial of £41m from the acquisitions of Martello in 2006 and Fyfe in 2008, where we have significantly scaled back activity as a result of the economic downturn, and in Central and Eastern Europe of £30m, reflecting slower than originally planned growth expectations.

Acquisition costs were £10m and include the integration costs for GCAN and 123.ie.

Tax

The tax charge was £186m and represents an effective rate of 30%. This was distorted

Financial highlights (management basis)

£m	2011	2010	2009	2008	2007
Net written premiums	**8,138**	7,455	6,737	6,462	5,837
Underwriting result	**375**	238	386	384	278
Investment result	**642**	538	523	594	629
Insurance result	**1,017**	**776**	**909**	**978**	**907**
Other activities	**(133)**	(135)	(132)	(111)	(93)
Operating result	**884**	**641**	**777**	**867**	**814**
Other movements	**(261)**	(157)	(216)	(126)	(122)
Acquisitions and disposals	**(10)**	(10)	(7)	18	(22)
Profit before tax	**613**	**474**	**554**	**759**	**670**
Tax	**(186)**	(119)	(135)	(173)	(29)
Profit after tax from continuing operations	**427**	**355**	**419**	**586**	**641**
Loss after tax from discontinued operations	**–**	–	–	–	(13)
Profit after tax	**427**	**355**	**419**	**586**	**628**

£m	2011	2010	2009	2008	2007
Combined operating ratio (%)	**94.9**	96.4	94.6	94.5	94.9
Shareholders' funds (£m)	**3,801**	3,766	3,491	3,839	3,077

Investment result

£m	12 months 2011	12 months 2010	Movement %
Bonds	**446**	452	(1)
Equities	**63**	55	15
Cash and cash equivalents	**15**	8	88
Land and buildings	**37**	23	61
Other	**18**	31	(42)
Investment income	**579**	**569**	**2**
Realised gains	**201**	68	196
Unrealised gains/(losses), impairments and foreign exchange	**(44)**	(5)	(780)
Total gains	**157**	**63**	**149**
Unwind of discount including ADC	**(94)**	**(94)**	**–**
Investment result	**642**	**538**	**19**

by the impact of the goodwill write-downs and excluding these, the effective underlying rate was 27%.

Profit after tax

Profit after tax was up by 20% to £427m and the underlying return on average equity was 11.6%, with the movement on 2010 predominantly reflecting the improved underwriting result.

2011 DIVIDEND

The directors will recommend at the Annual General Meeting to be held on 14 May 2012, that a final ordinary dividend of 5.82p (2010: 5.7p) per share be paid. This together with the interim dividend of 3.34p (2010: 3.12p) paid on 25 November 2011 will make the total distribution for the year 9.16p (2010: 8.82p), an increase of 4% compared with the prior year.

BALANCE SHEET

The total value of the investment portfolio is £14.5bn and was broadly unchanged over the year. Of the total investment portfolio, 89% remains invested in high quality fixed income and cash assets. The fixed interest portfolio is concentrated on high quality short dated assets, with 98% of the bond portfolio investment grade, and 74% rated AA or above. The bond holdings are well diversified, with 75% invested in currencies other than Sterling, and 60% invested in non government bonds (31 December 2010: 53%).

We have actively sought to lock in gains and reduce our equity exposure and have now sold around £430m of equities. Overall, equities were down by over £500m and comprised 5% of the portfolio, compared with 9% at the start of the year. The percentage of the equity portfolio protected by derivatives remained high, with around 62% of the exposure hedged.

On peripheral Europe, we have also further reduced our already limited exposure to government bonds from £209m at the beginning of 2011 to £138m. This represented less than 1% of the total portfolio. We also have limited exposure to bank debt in these countries with a holding at 31 December 2011 of just £132m, of which £50m related to Santander in the UK.

Our overall bank debt portfolio totalled £2.0bn and comprised around £200m of subordinated debt, of which 80% relates to Canadian banks, and around £1.8bn of senior debt. The senior debt exposure was well diversified over 76 names in 24 countries with a single largest holding of just over £100m.

On duration, across the Group we have increased the average duration from 3.1 to 3.4 years to benefit from the higher yields on longer dated securities.

Going forward, the Group will continue to take action to mitigate the impact of falling yields while sticking to its low risk, high quality strategy. Actions will include a further modest increase in exposure to high quality non government securities, from the 60% at the year end, to around 65% of the total bond portfolio. The Group will also look to modestly increase holdings in longer dated securities, although duration is set to remain below four years.

On reserving, the Group continues to adopt a prudent reserving policy for both current and overall reserves. As at 31 December 2011, reserves remained significantly to the right side of best estimate and, given our prudent reserving policy, we continue to expect positive prior year development to be a significant feature of the underwriting result.

CAPITAL POSITION

The Group has again maintained a strong capital position. Shareholders' funds were £3.8bn, in line with 2010, with after tax profits offset by dividends and foreign exchange losses. Excluding the pension fund, Shareholders' funds were up 4% to £3.9bn.

On regulatory capital, our IGD surplus of £1.3bn and coverage of 2 times the requirement were unchanged from the end of the third quarter and remained very strong.

Economic capital is the Group's own internal measure of the capital position and is calibrated to S&P's A rated default curve, which equates to a probability of insolvency over one year of 1 in 1,250. This is significantly more prudent than the probability of insolvency over one year under both ICA and Solvency II, which is 1 in 200. Our economic surplus remained strong and was up by £0.1bn since the end of the third quarter to £0.8bn. This compared with £1.1bn at the start of the year, with the movement reflecting capital generation of £0.5bn covering dividend payments of £0.3bn and corporate activity of £0.1bn.

The economic capital surplus is sensitive to changes in risk free yield curves, which impact both future investment income and the asset/liability mismatch under the stressed scenarios generated by our internal model. The downward movement in risk free yields over 2011 of around 140 basis points accounted for £0.4bn of the decline in the surplus.

SOLVENCY II

On Solvency II, we continue to make good progress and remain at the forefront of internal model approval. The implementation date has currently been delayed until January 2014, and

could move further out. We still do not anticipate that Solvency II will cause any fundamental change to the way we run the business.

RATING AGENCIES

S&P, AM Best and Moody's Investor Service provide insurance financial strength ratings for the Group and its principal subsidiaries.

We remain at our target credit rating level and the Group is rated A2 stable outlook by Moody's and A stable outlook, by AM Best. In February 2012, S&P upgraded the Group to A+ stable outlook reflecting our strong competitive position and capitalisation.

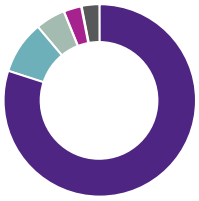
PENSION FUND

The pension deficit of £140m was broadly unchanged over the year, with the impact of lower discount rates offset by asset outperformance. The asset outperformance was driven by our prudent asset mix which generated over £500m of after tax return. These assets comprise a low equity exposure combined with an extensive swap programme, built up since 2005, that has locked in future real yields well in excess of market rates. We have also benefited from the insurance arrangements we entered into in 2009.

SUMMARY

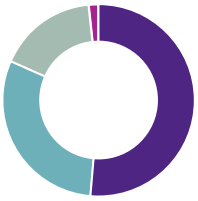
In what were again challenging industry conditions, 2011 was a good year for the Group. Market conditions are expected to again be difficult in 2012, with investment yields remaining at historical lows and subdued economic growth in some of our markets. Despite this, the Group expects to deliver good premium growth, a COR of better than 95% and investment income of around £500m.

Investment portfolio (%)



Bonds	80
Cash	9
Equities	5
Property	3
Other inc. Prefs and CIVs	3

Peripheral Europe Sovereign Debt Exposure (£m)



Ireland	71
Italy	42
Spain	23
Greece	2
Portugal	0

Economic Capital Surplus (£bn)

Regulatory capital surplus

£1.3bn

2x requirement

Credit ratings*

S&P	Moody's	AM Best
A+	A2	A
(Stable)	(Stable)	(Stable)
Upgraded in February 2012		

* Group and principal subsidiaries

RISK REVIEW

OUR BUSINESS SUCCESS IS UNDERPINNED BY OUR STRONG RISK MANAGEMENT

RISK MANAGEMENT

We ensure risk is managed to minimise losses and take opportunities for profitable growth.

The Group operates under a common framework through which risk management and control is embedded throughout the Group.

The Board is responsible for the Group's Risk Management System and for defining the Group's risk appetite.

Executive management is responsible for implementing systems and controls that manage our risk exposures in line with our risk appetite. Each Group business is required to follow a consistent process to identify, measure, manage, monitor and report its risks.

The Board Risk Committee ensures that material risks are identified and that appropriate arrangements are in place to manage and mitigate those risks effectively in line with risk appetite.

GROUP RISK APPETITE

The Group risk appetite is set and monitored at a Group, regional and business level and is reviewed annually and signed off by the Board Risk Committee and Group Board. It sets business volumes for certain higher risk insurance classes, stipulates loss retention limits, reinsurance protection, targets for credit rating and solvency margins.

RISK FRAMEWORK

The Group operates a 'three lines of defence' model for the oversight and management of risk as follows:

1st line – Management

- Setting strategy, performance measurement, establishment and maintenance of internal control and risk management in the business.

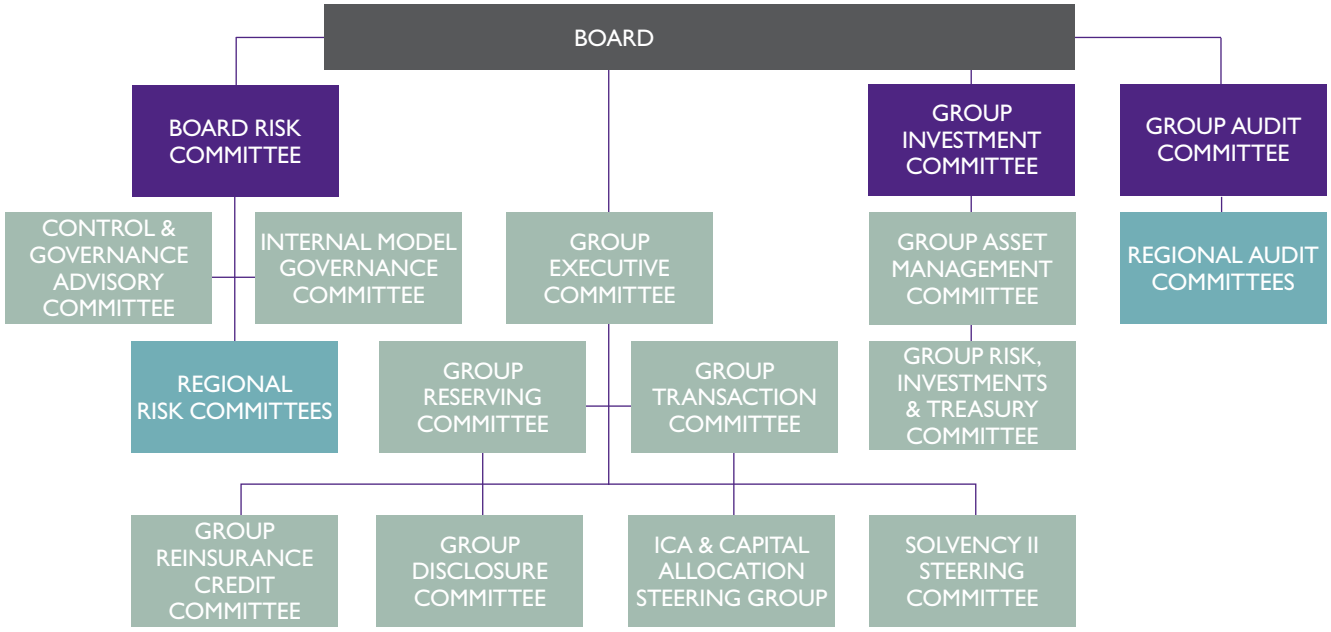
2nd line – Risk oversight

- Operating a formal Risk Management System within which the Group policies and minimum standards are set
- Oversight and challenge across the Group.

3rd line – Independent assurance

- Providing independent and objective assurance of the effectiveness of the Group's systems of internal control established by the first and second lines of defence.

Governance structure – the principal committees are shown below



"We ensure risk is managed to minimise losses and take opportunities for profitable growth."

David Weymouth, Group Operations and Risk Director

GROUP RISK POLICY STATEMENTS

Our policy statements set out the minimum standards to be maintained by the Group's operations to manage their risks in a way that is consistent with the risk appetite.

RISK CATEGORIES

Risks are viewed under categories that broadly correspond to those used in the Financial Services Authority's Prudential Sourcebook for Insurers (INSPRU) and Senior Management Arrangements, Systems and Controls (SYSC). Additional information is provided in the Risk Management section on page 93. Some of the key current practices and tools for each risk category are set out overleaf alongside our risks and uncertainties.

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 policy, procedures and controls • Clear delegation of authorities • Robust lines of defence • Regular and relevant reporting and assurance processes.
Strong culture	• Board set 'tone from the top' of open communication and engagement • Putting the customer at the centre of what we do • High quality and engaged staff.

2011 UPDATE

During the year we have maintained our focus on risk management, strengthening and developing our processes, controls and capabilities across the Group through the following activities

ORGANISATION AND CULTURE

- Visible Executive ownership of risk management principles and practices, as demonstrated in the Board Risk Committee and Regional Risk Committees, which have clearly defined terms of reference and agendas
- Reinforced our three lines of defence model, which clearly articulates the second line role of the Risk Function
- Promoted risk informed decision making, which is focused on achieving a desired outcome and considers both risk and reward
- Continued solid progress made on our transition into the Solvency II regulatory environment by
  - actively responding to the changing insurance regulatory architecture across the UK and Europe
  - working with regulators to demonstrate our approach in meeting requirements
  - educating our business on its changing roles and responsibilities.

SYSTEMS AND PROCESS

- Developed and implemented a Governance Risk and Compliance tool enabling a consistent assessment of risk across the three assurance functions of Risk, Financial Control and Internal Audit
- Enhanced the alignment of our Risk Management System to our strategic objectives and Solvency II regulatory requirements
- Further developed and embedded our processes to identify and measure emerging risks, including specific risk analysis on such issues as the weakening European economies
- Further developed our global programme of comprehensive stress and scenario testing, reinforcing our understanding of our risk profile and the effectiveness of our control environment. Analysis considered our financial and operational resilience to the Euro sovereign debt crisis.

PEOPLE

- Our risk experts helped to develop excellence across the Group
- We continue to strengthen our insurance and financial risk management capabilities through training and recruitment.

RISKS CATEGORIES

Risks	Primary activities	Key tools for managing
INSURANCE RISK Our insurance risk strategy has enabled us to continue delivering strong underwriting results.	• Pricing, acceptance and management of risks arising from our contracts with customers • Claims development and reserving • Exposure and accumulation management.	• Reviews of individual insurance portfolios • Regional and Group Reserving Committees held to determine a recommended level of outstanding claims and aggregate outstanding claims reserves • Scenario modelling that is appropriate for the size and complexity of our portfolios • Investigation of potential emerging insurance risks.
REINSURANCE RISK Our reinsurance buying and management expertise has allowed us to manage our insurance exposure and losses such as those arising from natural catastrophes during 2011, including the earthquakes in Japan and New Zealand and the floods in Thailand and Australia.	• Reinsurance strategy and appetite recommended to the Board by the Board Risk Committee • Purchase of the worldwide programme of global and local treaties • Reinsurance counterparty management.	• Group Reinsurance policy aligned with strategy and appetite • Analysis of major treaty purchases using various modelling tools • Monitoring and control of the Group's reinsurance activity • Monitoring of the reinsurance markets • Reinsurance counterparties approved by the Group Reinsurance Credit Committee.
OPERATIONAL RISK We have completed various Group-wide assessments and roll-out activities to strengthen our operations.	• Effective and reliable operation of processes • Business continuity and disaster recovery • Information security management • Monitoring and control to prevent fraud and human error.	• Risk and control self-assessments • Key risk indicators to assess and manage operational risk • Scenario analyses to assess operational events that have occurred elsewhere and potential exposure to the Group • Incident management, near misses and loss reporting.
CREDIT, MARKET & LIQUIDITY RISK We continue to proactively manage our financial risks despite the challenging economic climate.	• Investment strategy and portfolio management • Risk analysis (Value-At-Risk, Risk Contribution and Sensitivity Analysis) • Treasury activities such as Group liquidity and hedge effectiveness • Scenario and Stress Testing • Group Financial Risk policies aligned with strategy and appetite • Counterparty credit assessments.	• Controls to ensure that exposure is managed within risk appetite • Monitoring of exposure against limits set out in the Investment guidelines • Portfolio analytics • Requirements to maintain a minimum level of cash or highly liquid assets • Committees overseeing the Group's investment strategy and risk limits.
REGULATORY RISK Our response to regulatory changes and compliance has helped safeguard our business and we remain at the forefront of UK firms in respect of our Solvency II application process.	• Ensuring compliance in all geographical locations, with diverse regulatory requirements • Response to regulatory changes.	• Active engagement with regulators • Close monitoring of regulatory requirements • Compliance framework with consistent monitoring methodology • Monthly reporting of significant regulatory developments and mitigation of emerging risks.

PRINCIPAL UNCERTAINTIES

Risks	Potential impact	Mitigation
PROLONGED ECONOMIC DOWNTURN	• Exposure reduction impacts premium levels • Increased claims frequency.	• Diversified portfolio providing exposure to markets at different levels of development and insurance cycle • Limited exposure to economically triggered contracts • KPI dashboard utilised to support early corrective action • Maintain focus on underwriting discipline and targeted profitable growth • Continuous action on rate and expenses.
ADVERSE FINANCIAL MARKETS	• Impact on investment portfolio and investment income due to lower interest rates and market volatility.	• Retain focus on high quality, low risk investment strategy • Action taken to balance risk and return includes increasing our holdings in non government bonds, bond duration and having a significant percentage of our equity portfolio protected by derivatives.
RATING ENVIRONMENT	• Inability to charge adequate rates places downward pressure on underwriting results.	• Diversified portfolio by geography and line of business • Each portfolio has a rate plan which is regularly reviewed • Focus on underwriting and profitable growth • Actively shift capacity to where we see the best returns • Continue to invest in technical skills, sales and marketing capabilities.
ADVERSE LOSS EXPERIENCE	• Catastrophic losses arising from insurance events • Increasing frequency and severity of large losses • Deterioration in long tail reserves.	• Underwriting strategy set to ensure risks written are well diversified and within risk appetite • Regular portfolio reviews to monitor underwriting performance • Emerging trends in large losses, frequency and severity are investigated and corrective action taken • Reinsurance programmes limit net losses • Conservative reserving policy ensuring that claims reserves will be more likely than not to result in positive prior year development.
INSURANCE RISKS OUTSIDE GROUP'S RISK APPETITE	• Adverse impact on operating results due to increased volatility.	• The Group operates under a clear risk appetite set by the Board which is monitored at Group and regional level • Underwriters are licensed only to write risks within specified limits based on their own experience • Reviews assess each portfolio against key performance and risk indicators. Portfolios that trigger these indicators are investigated. Corrective measures are implemented where required.

CORPORATE RESPONSIBILITY

Corporate Responsibility (CR) remains fundamental to the way RSA conducts its business.

Our progress in 2011 was recognised by our inclusion in the Dow Jones Sustainability Investor Index, retaining 'Platinum' in the Times Top 100 Companies, being upgraded to a Super Sector Leader in the FTSE4Good Index and being listed on the Sunday Times Best Green Companies Award 2011.

CR SUPPORTS OUR STRATEGY

Our approach to CR is practical and focused on three key themes: road safety, social inclusion and the environment. These issues have been identified as important by our customers, investors and employees. Forum for the Future, the sustainability charity, carries out an annual assessment to check we are focusing on the right issues.

We incorporate these key material issues into our strategic priorities. For example, our work on flood mapping helps us identify the appropriate prices for the risk, driving sustainable earnings, while also allowing us to prioritise our claims approach. The development of our renewable energy business has also been a key factor in delivering targeted profitable growth and establishing RSA as a leading Renewables insurer globally. The work we do on environmental management to reduce travel, paper consumption, energy and water usage not only helps us meet environmental targets but also reduces costs and supports our continued focus on operational excellence.

Responsibility for CR lies with the Group CEO, who chairs the biannual Group Executive Committee review of CR and the annual review by the Board. Briefings and training on specific CR issues are provided on an ongoing basis. CR targets and objectives are included in the entire Group Executive Committee's individual objectives, which are also cascaded to direct reports and relevant business functions.

APPROACH AND GOVERNANCE

Behaving responsibly and ethically has a positive impact on people, communities and the environment in which we operate. We are committed to 'Doing the Right Thing', both as individuals and as a company. All employees are assessed against our brand beliefs – Bright Ideas, Brilliant Service, Doing the Right Thing, Getting the Job Done and Positive People – to ensure that this forms part of the performance and remuneration structure at RSA.

The principles by which we operate our business and our brand beliefs underpin our commitment to our customers, staff and other stakeholders and our Corporate Responsibility (CR) policies form an essential part of our broader risk and governance framework. Every country is required to confirm quarterly that they comply with our CR, environment, charity and human rights policies. Compliance with the policy framework is reviewed by the Group Executive Committee and Group Board in regular CR updates.

Our CR data, processes and external reporting are verified by our CR auditors PricewaterhouseCoopers (AA1000, ISAE3000) with an extra audit of the Group's carbon footprint (GHG Protocol) by Ecometrica. We use a web-based environmental management system to help collect and analyse data across RSA.

Environmental, social and governance (ESG) risks are actively monitored and reviewed regularly by the Board. In 2011, the main risks identified included UK Carbon Reduction Commitment legislation, environmental impacts of shipping and flood risk in the UK. We set environmental improvement targets at a country level and as a Group we achieved 71% of 2011 targets. In 2011, we achieved our long-term target to reduce our CO_2 emissions in relation to our net written premium by 40%. We have now extended the target to a 50% reduction against our 2006 baseline, to be achieved by 2020.

Further information on our approach, governance and policies can be found at **www.rsagroup.com/rsagroup/en/corporate-responsibility**

CUSTOMERS

As an insurer, we play a vital role in helping people and businesses recover when the worst happens. Helping customers get their lives back on track is our first priority. During 2011, our business helped customers recover from flooding in many locations around the world including Ireland, Denmark and Jeddah.

In Canada, we experienced 99% customer satisfaction levels thanks to fast track claims handling, specialised claims and empathy training for employees, coupled with 'Voice of the Customer' telephone surveys which give customers the opportunity to provide immediate feedback.

Our commitment to customers was underlined when our UK business won

'Claims Initiative of the Year' for its industry leading Home Claims Customer Tracker at the Insurance Times Awards 2011. The innovative tracker shows where customers are in the claims journey, prompting us to contact them throughout their claim and to line up suppliers in advance, enabling us to deliver a smoother, more efficient service.

Product innovation is also key to our success. Across the business we have created tailored and relevant products for specific customer groups and innovative insurance solutions in response to social and environmental changes, including

- In Canada, our green home endorsement policy ensures that any repairs are now carried out with environmentally friendly and healthy materials
- Our UK business is actively working to minimise waste in our claims supply chain through the use of recycled car parts and repairing electrical goods in the home
- In Denmark, we worked with existing suppliers to launch a new energy efficient window replacement scheme, helping customers to save energy and reduce their CO_2 emissions.

BUSINESS PARTNERS

We work closely with our business partners and intermediaries to grow a successful business while reducing our collective environmental and social impact. In the UK, we asked a number of our suppliers about their management of CR issues and engaged in active dialogue to improve standards. We also held our second supplier workshop to discuss our approach to CR and what we expect from suppliers. In Scandinavia, we re-launched our supplier codes of conduct, ensuring strong action on environmental and social issues.

RSA | PARTNERING FOR PROGRESS | WWF

For more details see **www.wwfrsapartners.com**

WWF RSA ARCTIC CHALLENGE

In 2011, we focused our efforts on doing what we can as an organisation to tackle the challenges that climate change brings. We launched a new initiative to raise the profile of our WWF partnership and to bring it to life.

The 'Arctic Challenge' saw over 10,000 of our employees in 33 countries taking part in a competition to win the opportunity to travel to the Arctic to see at first-hand the impact of climate change. The competition challenged teams to reduce their carbon footprint by walking and cycling rather than driving, donating and fundraising for charity and developing ideas to reduce our environmental impact.

The results were impressive with over three billion steps walked, 6,600 hours of volunteering given and over £100,000 raised for charity. The green ideas being implemented in 2012 have the potential to save around 15,000 tonnes of carbon and up to £600,000 in costs.

RESPONSIBLE INVESTMENT

The bulk of our UK equity assets continue to be managed by F&C Asset Management. F&C has one of the largest Governance and Sustainable Investment teams in Europe, enabling it to follow a policy of active engagement across its portfolios on environmental, social and governance issues. Last year, F&C engaged with 29 companies on a wide range of issues from climate change to labour standards across our portfolios.

EMPLOYEES

A sustainable business needs to attract, develop and reward talented people, as well as making them accountable for their actions. All employees are assessed against our Brand Beliefs, including 'Doing the Right Thing' which encapsulates our CR work.

We continue to focus on developing employees at all levels through programmes such as the Executive Development Programme for senior leaders, the Leadership Development Programme for team leaders, Fast Track for high potential individuals and the Graduate Programme. Our Graduate Programme involves developing long term charitable initiatives which link to our business as well as tackling responsible business dilemmas including procuring goods and product development.

Engagement remains an important focus, to encourage employees to participate in charity committees, green teams and wellbeing programmes.

In the UK, we are one of the first employers to comply with the Living Wage campaign nationally for our employees and suppliers. The campaign encourages employers to pay employees on the minimum wage a rate in accordance with the cost of living.

CLIMATE CHANGE AND THE ENVIRONMENT

As an insurer, any change in the intensity or frequency of extreme weather conditions can have a significant impact on our customers and our business. We remain committed to leading the debate on climate change and collaborating with a range of forums, including the insurance working group of the United Nations Environment Programme for Financial Institutions and the ClimateWise initiative.

Our operations in the UK, Ireland and Group Corporate Centre remain carbon neutral, offsetting their equivalent emissions in renewable energy projects certified to the Voluntary Carbon Standard. Our commitment to reducing our environmental impact is on track to achieve a 40% reduction in CO_2 emissions relative to our net written premiums by 2020 (based on 2006 levels).

We are working actively with WWF to integrate environmental risk considerations into our business. Through our international partnership spanning five countries we focus on key issues relevant to our business. These include marine risks through our shipping and aquaculture businesses, renewable energy and the impact on customers of water leaks in their property and flooding. For further information visit **www.wwfrsapartners.com**

COMMUNITY STRATEGY

Our community strategy remains focused on the issues that are important to our customers and where we feel we can achieve most through our skills and experience.

In 2011, we gave over £2.6m in charitable donations (2010: £2.4m), with over 17,000 volunteer hours (2010: 58,000) donated by around 5,200 volunteers (2010: 13,160). (2010 included a significant increase in volunteer numbers and volunteers hours due to our 300 years birthday celebrations.)

ROAD SAFETY

In 2011, we extended our work on Road Safety around the world. We launched a new eyesight campaign in the UK, encouraging stronger regulation around the need to have compulsory eyesight tests for driving licence renewals. This campaign focused on the UK political party conferences and around 5,000 employees across eight of our UK offices.

Our child safety programme was extended in the UK to another 40 primary schools nominated by our employees. Our Chilean road safety programme continues to help over 30,000 children per year. In early 2012, the programme was extended to Bahrain and Singapore for the first time.

High visibility in the dark is also a priority for many of our countries when the clocks change. We continued our long running reflector programmes in Scandinavia and Lithuania, handing out over 170,000 high visibility vests and reflectors. Our UK business also launched reflector programmes for the first time with cyclists in Manchester and Peterborough and, through our pet insurance business, we distributed high visibility coats and collars for pets.

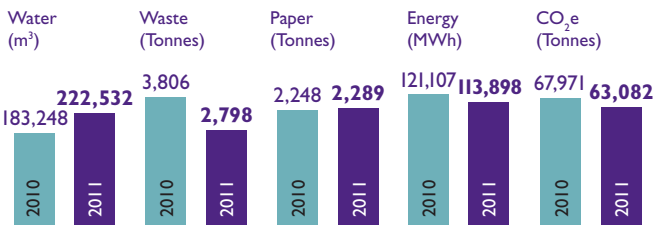
Greenhouse gas emissions for RSA Insurance Group (Tonnes of CO_2e*)

	2011	2010	2006 (baseline)
Scope 1[1]	**12,902**	16,309	–
Scope 2[2]	**28,344**	32,411	–
Scope 3[3]	**21,836**	19,251	–
Total gross	**63,082**	**67,971**	**77,247**
Gross tonnes CO_2 per £m NWP	**7.7**	9.0	14.1
Carbon offsets	**27,470**	34,000	–
Total net emissions	**35,612**	33,972	77,247
Net tonnes CO_2 per £m NWP	**4.3**	4.5	14.1

* Group carbon dioxide equivalent emissions (tonnes)
1. Scope 1: All direct GHG emissions
2. Scope 2: Indirect GHG emissions from consumption of purchased electricity, heat or steam
3. Scope 3: Other indirect emissions

Geographical breakdown of CO_2e emissions for 2011 (Tonnes of CO_2e*)

	Scope 1	Scope 2	Scope 3
UK (including GCC)	6,596	12,097	7,380
International	2,487	7,377	8,628
Emerging Markets	3,820	8,870	5,828



Social inclusion

RSA employees from all over the Group are actively involved with poverty alleviation, education and crime reduction initiatives. Across Latin America, staff made donations to orphanages and helped build homes for the homeless. In the UK, over 100 employees signed up to help to mentor teenagers aspiring to a career in business from underprivileged backgrounds.

Across the Group, we also launched our Global Charitable Programme to support employees charitable work and local communities. The programme is aimed at helping improve employee engagement, supporting local community organisations and promoting RSA in the community. Employees anywhere within RSA can now apply for matched funding, a charitable grant, or a charitable secondment lasting up to three months.

Environment

During 2011, we supported a number of environmental volunteering projects including planting trees and cleaning up polluted beaches in the Middle East. In the UK, teams helped at local nature reserves and parks, with volunteers preparing a park in London to be the site of an urban river restoration project with WWF.

We launched the Arctic Challenge in 2011 which saw over 10,000 of our employees actively participate to reduce their carbon footprint, develop the best business green idea and fundraise for WWF or other green charities. The campaign was aimed at increasing awareness of WWF and the link to insurance risk.

For further information on Corporate Responsibility please email **corporate.responsibility@gcc.rsagroup.com** or to see the full Corporate Responsibility Report, visit our website **www.rsagroup.com**

RSA | PARTNERING FOR PROGRESS | WWF

For more details see **www.wwfrsapartners.com**

WWF PARTNERSHIP

In 2009, we launched our partnership with WWF across the UK, Canada, Sweden, Denmark and China. Focusing on the risks of environmental change, RSA has been supporting conservation projects relevant to our business, developing new products and engaging our employees and external stakeholders on the environment. We are focusing on three key issues:

Water

Flooding remains a key issue for RSA because the increased frequency or intensity of rain has a direct impact on our customers. With increased pressure on flood defence budgets, insurers need to find environmentally sensitive and cost effective solutions. In 2009, we started work on a river restoration project at Mayesbrook Park in east London and have now completed the flood alleviation phase. Slowing down the river, and re-creating the natural meander and floodplain demonstrates a cost-effective, natural solution. We are also working to conserve water as a business. Water escapes in commercial and domestic property are a major source of loss and environmental impact. Through research with WWF we are making the business case to save water and protect customers.

Marine

As one of the largest Marine insurers, we are acutely aware of increasing pressures on fishing, shipping and resource extraction and we are working to improve the sustainability of our seas. In Canada, we are working with WWF to establish marine protection areas to help safeguard the long-term future of the fishing industry and in Scandinavia, we are collaborating with governments to better manage the commercial use of the Baltic Sea. RSA joined a group of global marine industry leaders to launch the Sustainable Shipping Initiative (SSI) which will focus on shaping regulations to improve safety and minimise the impact on the environment. The SSI tackles issues such as climate change, piracy and carbon taxes. We will be working to ensure that risk reduction plays a key role in commitments for the industry.

Renewable energy

Governments are placing an increased focus on renewable energy to combat climate change. As a leading insurer of this risk, our Global Renewables business is uniquely placed to help the transition to a low carbon economy. In China, we have been working with WWF and a range of stakeholders to develop renewable energy usage and energy efficiency. In 2011, we produced research in China and the UK to raise awareness of the importance of insurance to grow the renewable energy industry. Together with WWF, further research in 2012 will help make the case for renewable energy and develop our knowledge of new technologies.

CONSTRUCTION, ENGINEERING AND RENEWABLE ENERGY

WITH OUR FOUNDATIONS GOING BACK TO THE INDUSTRIAL REVOLUTION, PROVIDING INSURANCE SOLUTIONS TO THE CONSTRUCTION AND ENGINEERING SECTOR HAS ALWAYS BEEN A CORNERSTONE OF OUR BUSINESS.

As this sector has evolved, so have we. With the recent emergence of the Renewable Energy industry, RSA was the first insurer to launch a global Renewable Energy business to support their insurance needs, and today we are the market leaders.

We remain at the forefront in these industries, covering everything from bio energy developments to major transportation infrastructures. We provide instant access to the right specialists who have a real understanding of the challenges our customers face and can tailor insurance products to match their individual needs.

We have around 200 dedicated Construction and Engineering experts in 30 offices around the world. They provide specialist insurance and risk management services across construction, facilities management, engineering design and manufacturing through our extensive range of insurance products including cover for property, machinery and tools, legal liability as well as employees' liability.

Within the Renewable Energy sector, RSA provides insurance across the full lifecycle, from start up and shipment of material, to construction and then operational cover once the facility is up and running. We provide insurance covers for the breadth of Renewable Energy technologies, including wind energy (onshore and offshore), solar energy, small hydro, bio energy and wave & tidal.

Our teams of people across the world are supported by our Centres of Excellence, which bring together the combined knowledge of specialist underwriters, risk engineers and claims experts with specific industry experience. The combination of our depth of knowledge and global reach has established us as a market leader.

BOARD OF DIRECTORS

JOHN NAPIER

Chairman (age 69)

Skills and experience
John Napier joined as a Non-Executive Director in January 2003 and became Chairman of the Board in March 2003. Previous roles include Chairman of Kelda Group plc (water utility), stepping down after its sale and subsequent de-listing from the London Stock Exchange. He has previously been Chairman of Booker plc (cash and carry) and Managing Director of Hays plc (business services) and AGB Research plc (international market research and information services).

External appointments
Chairman of Aegis Group plc (media) (and was also interim Chief Executive of Aegis Group plc from December 2008 until May 2010).

Committee membership
- Nomination Committee (Chairman)
- Remuneration Committee
- Investment Committee

SIMON LEE

Group Chief Executive (age 51)

Skills and experience
Simon Lee was appointed as Group Chief Executive in November 2011 having been Chief Executive of the Group's International region since April 2003 and an Executive Director since January 2007. Previous roles include 17 years with the National Westminster Group, in the UK and US, including time as Chief Executive, Natwest Offshore and Head of US Retail Banking.

External appointments
None currently held.

Committee membership
- Investment Committee
- Board Risk Committee

GEORGE CULMER

Chief Financial Officer (age 49)

Skills and experience
George Culmer joined the Board as Chief Financial Officer in May 2004 and is a member of the Group Executive Team and the Board Risk Committee, which he chaired until June 2009. Previous roles include Head of Capital Management of Zurich Financial Services (insurance) and Chief Financial Officer of its UK operation. Before that he spent ten years with Prudential. George will leave the Group in May 2012 to join Lloyds Banking Group as Group Finance Director.

External appointments
None currently held.

Committee membership
- Investment Committee
- Board Risk Committee

ADRIAN BROWN

Chief Executive, UK (age 47)

Skills and experience
Adrian Brown was appointed as an Executive Director in July 2011 having been Chief Executive of the UK since September 2008. Adrian is a qualified management accountant and has been with the RSA Group since 1989. He was previously the UK Chief Operating Officer with responsibility for Claims, Sales and Service, IT and Change across Personal and Commercial lines, and prior to that he was UK Director of Personal Lines, leading the launch of MORE TH>N.

External appointments
Adrian is also a Director of Employers' Liability Tracing Office and DKH Legacy Trust.

Committee membership
- No committee memberships.

EDWARD LEA

Senior Independent Non-Executive Director (age 70)

Skills and experience
Edward Lea was appointed as a Non-Executive Director in July 2003 and was appointed Senior Independent Director in January 2011. Previous roles include Finance Director of BUPA, ASDA and MFI and Chairman of Redbourn Group Limited.

External appointments
Director of Powertraveller Limited and MacIntyre Care (charity).

Committee membership
- Group Audit Committee (Chairman)
- Remuneration Committee
- Nomination Committee
- Investment Committee

KEY:

CHAIRMAN

EXECUTIVE DIRECTORS

NON-EXECUTIVE DIRECTORS

Full biographies can be found on:
www.rsagroup.com/boardofdirectors

ALASTAIR BARBOUR

Independent Non-Executive Director (age 59)

Skills and experience
Alastair Barbour was appointed as a Non-Executive Director in October 2011. 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.

External appointments
Non-Executive Director of Standard Life European Private Equity Trust plc, CATCo Reinsurance Opportunities Fund and Liontrust Asset Management plc. He is a fellow of the Institute of Chartered Accountants in England and Wales.

Committee membership
- Group Audit Committee
- Investment Committee

NOEL HARWERTH

Independent Non-Executive Director (age 64)

Skills and experience
Noel Harwerth was appointed as a Non-Executive Director in March 2004. Previous roles include Chief Operating Officer of Citibank International plc (finance) and Director of Impellam Group plc (support services).

External appointments
Director of Logica plc (IT and outsourcing), Harry Winston Diamond Corporation (mining and retail) and Deputy Chairman of Sumitomo Mitsui Banking Corporation Europe Limited (finance).

Committee membership
- Board Risk Committee (Chairman)
- Group Audit Committee
- Investment Committee

MALCOLM LE MAY

Independent Non-Executive Director (age 54)

Skills and experience
Malcolm Le May was appointed as a Non-Executive Director in March 2004. Previous roles include CEO Investment Banking (Europe) at UBS, Deputy Chief Executive of Morley Fund Management (Investment Fund Manager), Deputy CEO of ING-Barings (finance), Chief Executive of Matrix Corporate Capital LLP and President Europe at JER Partners (Property).

External appointments
Non-Executive Director of Pendragon plc (general retailers).

Committee membership
- Investment Committee (Chairman)
- Remuneration Committee
- Board Risk Committee

JOHN MAXWELL

Independent Non-Executive Director (age 67)

Skills and experience
John Maxwell was appointed as a Non-Executive Director in July 2003. Previous roles include Executive Director of Prudential Group plc, Chairman of DXServices plc (mail), Director of Provident Financial plc (financial services) and Homeserve plc (support services) and Director General of The Automobile Association Limited.

External appointments
Director of London Finance and Investment Group plc and a member of the Institute of Chartered Accountants of Scotland.

Committee membership
- Remuneration Committee (Chairman)
- Nomination Committee
- Investment Committee

JOSEPH STREPPEL

Independent Non-Executive Director (age 62)

Skills and experience
Jos Streppel was appointed as a Non-Executive Director in October 2011 and has a comprehensive understanding of the insurance market globally and good knowledge of international and emerging markets. He was Chief Financial Officer of Aegon until 2009 and has extensive financial services expertise.

External appointments
Chairman of KPN, the former incumbent telecom carrier of The Netherlands, Deputy Chairman of Van Lanschot, a Dutch private banking and asset management firm and Chairman of the Monitoring Committee of the Dutch Corporate Governance Code

Committee membership
- Remuneration Committee
- Investment Committee

JOHANNA WATEROUS

Independent Non-Executive Director (age 54)

Skills and experience
Johanna Waterous was appointed as a Non-Executive Director in May 2008. Previous roles include Chairman of Tate Enterprises and over 20 years with McKinsey & Company, with roles including Co-leader of the Global Marketing and Sales Practice and Leader of their UK Consumer Practice and the European Retail Practice.

External appointments
Non-Executive Director of WM Morrison Supermarkets plc, Director of RBG Kew Enterprises Limited, an Operating Partner of Duke Street LLP and Chairman of Sandpiper CI.

Committee membership
- Group Audit Committee
- Nomination Committee
- Investment Committee

EXECUTIVE TEAM

The Executive Team comprises the Executive Directors whose biographies are on page 40 and the following senior executives:

PAUL DONALDSON

Group Broker Relationship and Sales Director

Paul was appointed Group Broker Relationship and Sales Director in July 2011. Paul has over 35 years experience in the insurance industry, having joined RSA in 1976. He has held a number of leadership roles in RSA, including CEO for the Republic of Ireland and most recently Managing Director, Commercial in RSA's UK business.

VANESSA EVANS

Acting Group Customer and Human Resources Director

Vanessa joined RSA in 2005 as UK Human Resources Business Partner Director for Claims and Finance. In 2006 she was appointed as Human Resources Director for the newly created Emerging Markets Region. In September 2008, she was promoted to UK Human Resources Director and since September 2011, has been acting Group Customer and 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.[2]

TIMOTHY MITCHELL

Group Underwriting and Claims Director

Tim was appointed Group Underwriting and Claims Director in November 2007 when he joined the Group. Tim has nearly 40 years experience in the insurance industry. He joined RSA from Zurich Financial Services where senior underwriting roles included three years as Global Chief Underwriting Officer for General Insurance. Tim has also held senior management roles at AIG and Continental Insurance. Tim is a member of the Cheltenham Ladies College Council.

ROWAN SAUNDERS

Chief Executive, Canada

Rowan was appointed CEO of Canada in September 2003. Since joining RSA in 1987, Rowan has held leadership positions in the areas of underwriting, marketing, sales and finance. He is past Chair of the Board of Directors of the Insurance Bureau of Canada (IBC) and sits on the board of Codan A/S. Previously he was Vice President, Personal Insurance for RSA and also held the position of Vice President, Western Assurance Co., an Ontario-focused niche insurer. Rowan was previously President of Agilon Financial, an affiliated company of RSA Canada, where he was responsible for the company's strategic development, operations and overall financial performance.

Notes:
1. Orlagh Hunt went on maternity leave from 20 September 2011 and has since decided she will leave the Group in September 2012.
2. Vanessa Evans was acting Group Customer and Human Resources Director from 20 September 2011 and took over the role permanently from 1 March 2012.

MIKE HOLLIDAY-WILLIAMS

Chief Executive, Scandinavia

Mike Holliday-Williams joined RSA in 2006 and was appointed CEO of Scandinavia in February 2011. Mike is also CEO of Codan A/S and CEO of Trygg-Hansa. Prior to this, he was the Managing Director for RSA's UK Personal Lines operation, which includes MORE TH>N and was previously the Managing Director of RSA's UK Retail business. Before joining RSA, Mike worked in the energy, telecoms and retail sectors, beginning his career at WH Smith Ltd, before subsequently moving to various Centrica owned businesses, including British Gas and Onetel.

ORLAGH HUNT

Group Customer and Human Resources Director

Orlagh joined the Group as Human Resources Director for International in September 2003 and was appointed Group Human Resources Director in October 2006, also being responsible for Group Customer since 2011. She was previously Head of Human Resources for AXA Sun Life and has worked at Walkers and Tesco in a variety of Human Resources management roles.[1]

ANNE JÆGER

Group Chief Auditor

Anne has been with the RSA Group since 2001. She was appointed Group Chief Auditor in September 2008, having been Regional Chief Auditor for International, based in Denmark. Anne has more than 25 years experience within finance, assurance, risk management and corporate governance areas. Anne was previously CFO at Maersk Data (now part of IBM) for two years and spent 13 years with KPMG as a State Authorised Public Accountant, where she was involved in work with publicly listed companies, M&A and restructuring.

DEREK WALSH

Group General Counsel and Group Company Secretary

Derek joined the Group as Group General Counsel and Group Company Secretary in July 2010 and has over 17 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.

DAVID WEYMOUTH

Group Operations and Risk Director

Currently Group Operations and Risk Director, David joined the Group in June 2007. Immediately prior to that David spent two years consulting blue chip and government organisations and acting as an independent board member in the US and UK. David had spent 27 years with the Barclays Group, where senior roles included CEO for Mid-Market Banking, Chief Operating Officer for Corporate Banking and Group Chief Information Officer. He was also on the Group Executive Committee. David is also currently a Non-Executive Director at the Financial Services Compensation Scheme.

PAUL WHITTAKER

Chief Executive, Emerging Markets

Paul was appointed Chief Executive of Emerging Markets in 2006, having been Group Human Resources Director since April 2003 when he joined RSA. He has over 20 years senior management experience in the financial services sector including three years at AXA and ten years at GE Capital, including work in Asia and Eastern Europe on acquisition integration and business development.

DIRECTORS' AND CORPORATE GOVERNANCE REPORT

The Board is committed to maintaining high standards of corporate governance. It believes that a solid corporate governance framework enables effective and efficient decision making with clear responsibilities and leads to achievement of the Company's objectives and delivery of long term value to shareholders.

This Report is structured in line with the headings in The UK Corporate Governance Code (the Code) of Leadership; Effectiveness; Accountability and Relations with Shareholders. Remuneration is covered in the separate Remuneration Report on pages 57 to 71.

Code compliance

Throughout 2011, the Company has complied with the Principles and Provisions in section one of the Code (available from **www.frc.org.uk**) with the exception that no meetings took place between the Senior Independent Director and the Non-Executive Directors without the Chairman present. At least one such meeting will take place this year.

Further explanation of how the Main Principles in the Code have been applied is set out below and in the Remuneration Report, as applicable.

LEADERSHIP

The Role of the Board

The Board is responsible for organising and directing the affairs of the Company in a manner that is most likely to promote its success for the benefit of its members as a whole. Its role is to provide entrepreneurial leadership of the Company within a framework of prudent and effective controls. Matters reserved for the Board include:

- Strategy and management of the Company
- Changes to the structure and capital of the Company
- Financial reporting and controls
- Reviewing the effectiveness of internal controls
- Approving significant expenditure and material transactions and contracts
- Communicating with shareholders
- Appointment and removal of Directors and the Group General Counsel and Group Company Secretary
- Determining the remuneration policy for the Executive Directors, the Chairman, Group General Counsel and Group Company Secretary and senior executives
- Review of the Company's overall corporate governance arrangements
- Delegation of authority to the Group Chief Executive.

2011 HIGHLIGHTS

(in addition to items discussed elsewhere in this report)

- Full day dedicated to strategy and regular updates during the year
- Approved the 2012 Operational Plan
- Discussed and approved the changes to the Board which took place during the year
- Considered matters relating to Solvency II implementation including approving a UK legal entity reduction programme
- Considered mergers and acquisitions activity in excess of £50m
- Monitored material claims and reinsurance matters
- Updated the Company's policy in relation to bribery and corruption in response to the implementation of the Bribery Act 2010.

The Board and each of its committees: Group Audit, Remuneration, Nomination, Board Risk and Investment have written terms of reference explaining their role and the authority delegated to them. Each of the committees' terms of reference are available on the Company's website. Further details on the principal duties of each of the Board committees can be found under Accountability on page 47.

Each year, the Board meets to set annual objectives for the business in line with the current Group strategy. The Board monitors achievement of the Company's objectives through monthly Board reports which include updates from the Group Chief Executive (Group CEO); Chief Financial Officer (CFO); Group Risk and other functions including Legal, Regulatory Risk and Compliance; IT and Operations; Corporate Responsibility; and Human Resources. The Board has a rolling agenda of items that regularly need to be considered by the Board and this agenda is continually updated to include any topical matters that arise.

The Board held ten regular meetings during the year and 5 additional meetings. Consequently, not all Directors were available to attend all of these meetings but where possible their views were canvassed by the Chairman prior to the meetings and the Board informed of their opinions and observations. Robust discussions were held and advice sought as required prior to decisions being made. In addition, nine Board committee meetings were held during the year to finalise matters delegated by the Board such as final approval of financial statements and large operational contracts.

The attendance of Directors at meetings of the Board during the year is set out below:

Total number of Board meetings held during the year	Regular[1] 10	Additional[1] 5
John Napier (Chairman)	10/10	5/5
Alastair Barbour[2]	1/2	–
Adrian Brown[3]	4/4	–
George Culmer[4]	9/10	5/5
Noel Harwerth	9/10	4/5
Andy Haste[5]	9/10	5/5
Edward Lea	10/10	5/5
Simon Lee	10/10	4/5
Malcolm Le May	10/10	5/5
John Maxwell	9/10	4/5
Jos Streppel[6]	2/2	–
Johanna Waterous	9/10	5/5

Notes:
1. The table above shows the number of Board meetings attended by each Director against the number of Board meetings that each Director was invited to attend.
2. Appointed to the Board on 10 October 2011. Mr Barbour was unable to attend one meeting after his appointment due to an existing diary conflict.
3. Appointed to the Board on 5 July 2011.
4. Mr Culmer resigned on 21 November 2011 but will remain as a Director and Chief Financial Officer of RSA until the close of business on 14 May 2012.
5. Mr Haste resigned as Group CEO on 1 November 2011 and as a Director on 31 December 2011. Mr Haste did not attend the December Board meeting.
6. Appointed to the Board on 3 October 2011.

Delegated authorities

The Group operates a Delegated Authority Framework which specifies how executive authority is delegated from the Board to the Group CEO and on to other executives in the Group. Senior executives across the Group receive an executive licence setting out their specific limits of authority in terms of 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. Further detail on the overall risk framework is set out on pages 30 to 33.

Directors

The names of the Directors together with their biographical and committee membership details are set out on pages 40 and 41 and are incorporated into this report by reference. Details of the Directors' service contracts and terms of appointment, together with their interests in the Company's shares, are shown in the Remuneration Report on pages 57 to 71 and are incorporated into this report by reference.

Division of Responsibilities – Chairman and Group CEO

The roles of the Chairman and the Group CEO are separate, with responsibilities clearly divided between them and set out in role statements. The role statements of both the Chairman and the Group CEO were reviewed during the year and revised versions were approved by the Board in July 2011 and March 2011 respectively. The role statements for the Chairman and Group CEO explaining their responsibilities are available on the Company's website.

Non-Executive Directors

The Non-Executive Directors challenge and help develop strategy and scrutinise performance against it. Each Non-Executive Director is a member of at least two of the following Board committees: Group Audit Committee; the Remuneration Committee; the Nomination Committee; the Investment Committee; and the Board Risk Committee. Financial controls and systems are assessed through the Group Audit Committee, Board Risk Committee and the Board as necessary. The Remuneration Committee sets levels of remuneration for the Executive Directors. The Nomination Committee keeps under review the capabilities required by the Board and the leadership needs of the Group and makes recommendations to the Board on matters relating to the Board's membership.

Edward Lea was appointed as the Senior Independent Director in January 2011 and a role statement setting out his responsibilities in this position was approved and adopted by the Board in March 2011. The Senior Independent Director's role statement provides that the Senior Independent Director should be available to shareholders if they have concerns which have not been resolved through normal contact with the Chairman, Group CEO or other Executive Directors.

The Chairman has held a number of meetings with the Non-Executive Directors without the Executive Directors present during 2011.

EFFECTIVENESS

Composition of the Board

The Board believes that it has the appropriate balance of skills, experience, independence and knowledge of the Group to enable it and its committees to discharge its duties and responsibilities effectively, as required by the Code. It 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.

More than 50% of the Board, excluding the Chairman, comprises independent Non-Executive Directors. Edward Lea, John Maxwell, Noel Harwerth and Malcolm Le May were all first elected at the 2004 Annual General Meeting (AGM) and are currently serving their third three year term. The Board considers that each of them remains independent. The Chairman met the independence criteria on appointment.

A programme to actively manage changes to the Board to reflect the fact that four Non-Executive Directors will cease to be deemed to be independent in 2013 was commenced during the year. In order to ensure continuity of corporate knowledge and experience ahead of a series of planned retirements, the Board was strengthened in 2011 by the appointment of an additional Executive Director and two new Non-Executive Directors. Further details of appointments to the Board are contained in the report of the Nomination Committee below.

The Board also made a number of changes to the membership of its committees demonstrating its commitment, as required by the Code, to regularly refreshing the Board's committee membership so that undue reliance is not placed on particular individuals. Further details on the changes to Board committee membership are contained in the relevant committee report below.

Only members of the Board committees are entitled to attend committee meetings but Executive Directors and senior management may attend at the invitation of the relevant committee. This is made clear in the terms of reference of each of the committees.

Board Appointments in 2011

The Board considers the leadership needs and succession planning of the Board when making decisions on new appointments and ensures that succession planning processes are in place with regard to senior appointments both below and at Board level. Further details of appointments to the Board are contained in the report of the Nomination Committee below.

Commitment

The Chairman's letter of appointment, revised in February 2011, anticipates an expected time commitment involving attendance at all Board meetings, the AGM and Board committee meetings of which the Chairman chairs or is a member, as well as being required from time to time to attend meetings with major shareholders, management, staff and professional advisers. The Chairman is currently Chairman of Aegis Group plc but the Board is satisfied that his other commitments did not interfere with the performance of his role as Chairman. He is always available, as required, to attend to the business of the Company as demonstrated by his availability for a number of additional Board and Board committee meetings during the year.

Service agreements and letters of appointment (for both the Executive and Non-Executive Directors) are available for inspection at the Company's registered office and at the AGM. The letters of appointment for each of the Non-Executive Directors, revised at the beginning of the year, state that in accepting the appointment, the Director confirms that he/she is able to allocate sufficient time to meet the expectations of the role, with a minimum anticipated time commitment of 28–32 days per year.

Mr Haste, who resigned as a Director with effect from 31 December 2011, is a Non-Executive Director of ITV plc, a FTSE 100 company. Mr Brown, Mr Culmer and Mr Lee 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 Chairman.

Development

On appointment to the Board, Directors undertake an induction programme and receive a broad range of information about the Company appropriate to their existing knowledge and experience and the committees to which they will be appointed. This includes background information on the Group and details of Board procedures, governance matters and Directors' responsibilities and a series of meetings with members of the Board and executive management on the business and regulatory matters.

The monthly Board report (which is discussed at each Board meeting) includes updates from the Group CEO, CFO, the Group General Counsel and Group Company Secretary, including Regulatory Risk and Compliance and IT and Operations and other functional updates. Development and training for the Directors is an ongoing process which includes briefings on legislative and regulatory changes and on corporate governance matters. Directors also receive regular presentations about the Company's operations and there are regular discussions on strategy, customer marketing, employee engagement and environmental and social matters. Opportunities are also created for Non-Executive Directors to make informal visits to different parts of the Group and to meet with local management.

These visits deepen the Non-Executive Directors' understanding of the business and provide them with additional comfort that they have taken all the steps necessary as Directors to fulfil their statutory duties to the Company and their responsibilities in preparing the Annual Report and Accounts and ensuring that the external auditor is aware of all relevant information. During the year, Johanna Waterous attended Board and Audit Committee meetings in Canada and a site visit with the UK Engineering division. Edward Lea also attended Canadian board meetings. All Non-Executive Directors regularly host informal meetings with senior executives outside of the Executive Team. This gives participants the opportunity to meet and discuss the business.

The Board have discussed the subject matters where further professional development, including Solvency II training, will be provided in 2012.

Information and Support

The Board considers that the information provided to the Board and its committees is supplied in a timely manner and in a form and of a quality appropriate to enable it to discharge its duties.

The Group General Counsel and Group Company Secretary is responsible for assisting the Chairman with arranging induction and professional development for the Directors and for bringing all governance matters to the attention of the Board. The Directors have access to the services and advice of the Group General Counsel and Group Company Secretary and, in addition, may take independent professional advice at the expense of the Company in the furtherance of their duties. The appointment and removal of the Group General Counsel and Group Company Secretary is a matter reserved for the Board.

Performance evaluation

In 2010, there was a formal and rigorous review of the Board, its committees and their effectiveness which was undertaken by an external consultancy. In 2011, the review was carried out internally, starting with the committees and concluding with the Board itself.

The 2011, Board review was discussed in December 2011 and took place at the Board Strategy away day in January 2012, to reflect the fact that, in accordance with the programme of planned changes to the Board, one new Executive Director joined the Board in July 2011, two new Non-Executive Directors joined the Board in October 2011 and the Board had a change of Group CEO from 1 November 2011. This allowed a sufficient period of time for the new Board members to provide input to the review process.

Reviews of the Board committees took place in November and December 2011.

The evaluation of the Group Audit Committee focused on the composition of the committee and the number and length of meetings held each year, the information received by the committee and its timeliness and the effectiveness of the committee's reviews of specific areas. Priorities for change were agreed to be preparatory work for Solvency II, the need to work more closely with the subsidiary audit committees and the executive and the main challenges facing the committee over the next three years, which included change and uncertainty in the regulatory regimes and responding to the risks inherent in a continuing uncertain global economic environment.

Following the Board Risk Committee's review of its effectiveness, action is being taken to address the length of the agenda and quantity of information received by the Board Risk Committee to enable the committee to focus on key issues such as Solvency II and to be more forward looking.

The evaluation of the Remuneration Committee identified some areas for improvement relating to the reporting of remuneration matters to the Board and the need to have a coordinated training programme for committee members to maintain their knowledge of executive remuneration matters. The committee agreed to progress these actions.

Re-election

The Directors and the Company (by ordinary resolution) may appoint a person who is willing to be a Director either to fill a casual vacancy or as an additional Director. In accordance with the Code, the Directors shall submit themselves for election or re-election at each AGM. Resolutions to reappoint Directors at the AGM are subject to the approval of the Board, taking into account the recommendations of the Nomination Committee. The Company may (by ordinary resolution of which special notice has been given) remove any Director before the expiration of his period of office.

ACCOUNTABILITY

Financial and Business Reporting

A balanced and understandable assessment of the Group's position and prospects, an explanation of its business model and the strategy for delivering the objectives of the Company are contained in the Group CEO's Review on pages 10 to 15 and the Business Review on pages 17 to 37. A statement of the Directors' responsibilities can be found on page 74 and reports from the external auditor can be found on pages 75 and 142.

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 consideration of the Group's underwriting plans, strong regulatory capital surplus, diverse insurance risk profile, considerable undrawn financing facilities and highly liquid investment portfolio. 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.

GROUP AUDIT COMMITTEE (GAC) REPORT

Number of meetings held in 2011	5
Edward Lea (Chairman)	5/5
Alastair Barbour[1]	1/1
Noel Harwerth	5/5
John Maxwell[2]	4/4
Johanna Waterous	4/5

Notes:
1. Alastair Barbour was appointed to the GAC with effect from 27 October 2011.
2. John Maxwell retired from the GAC with effect from 27 October 2011.

PRINCIPAL DUTIES OF THE GAC

- To coordinate and oversee the integrity of the Company's financial reporting process
- To monitor compliance with regulations, industry codes and legal requirements of each territory in which the Group transacts business
- To provide oversight of the internal and external audit function
- To manage the effectiveness of the Group's systems of internal controls
- To review the Group's financial performance
- To provide assurance on the effectiveness of the Group's financial and regulatory risk management systems.

2011 HIGHLIGHTS

- Reviewed all results announcements and the 2010 Annual Report and Accounts
- Reviewed the Financial Control Framework quarterly
- Reviewed the effectiveness of internal controls
- Received regular reports from the CFO, Disclosure Committee, regional audit or management control committees, the external auditor, the Group Chief Auditor and Regulatory Risk & Compliance
- Approved non audit services provided by the external auditor
- Assessed the external auditor
- Approved the 2012 Group Internal Audit Plan
- Approved the 2012 Regulatory Risk & Compliance Plan.

The GAC is comprised of Non-Executive Directors, all of whom have recent and relevant financial experience. The Deputy Group Company Secretary acts as the Secretary to the GAC. The Group CEO, CFO, Group General Counsel and Group Company Secretary, Group Chief Auditor, Group Head of Regulatory Risk & Compliance and representatives of the external auditor are regular attendees by invitation. The Chairman and other members of executive management are also invited to attend from time to time. The GAC holds regular meetings with the Group Chief Auditor, and Group Head of Regulatory Risk and Compliance and the external auditor without any members of management being present. The GAC also holds meetings which comprise only the GAC members with no other attendees.

The outcomes of meetings are reported to the Board and the Board receives the minutes of all the GAC meetings. The GAC has unrestricted access to Company documents and information, as well as to employees of the Company and external professional advisers. Regular reports are received and reviewed by the GAC from the Disclosure Committee and regional audit or management control committees and in relation to the Financial Control Framework and Enterprise Risk Management.

The GAC is satisfied that, during 2011, it has received sufficient, reliable and timely information from management to enable it to fulfil its responsibilities.

Whistle blowing

The Company's policy on whistle blowing provides a mechanism for employees to raise serious 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. The GAC annually reviews the policy and is satisfied that it meets the criteria set out in the Code.

Regulatory compliance

The Board is responsible to the Financial Services Authority (FSA) for ensuring compliance with the Group's UK insurance regulatory obligations. The Board attaches great importance to its regulatory responsibilities and is committed to dealing with the regulator in an open, cooperative and transparent manner. In the second half of 2011, the FSA carried out a review under its risk based regulation operational framework (ARROW).

During 2011, the FSA conducted private meetings with several members of the Board and executive management as a part of their 'close and continuous' programme. The Group also engaged closely with the FSA regarding development of the Group's Solvency II Internal Model application. More information on the Group's approach to Solvency II can be found in the financial review on page 28 and in the report of the Board Risk Committee on page 50.

In addition, the Group includes a number of regulated entities which rely on various licences to carry out their business. 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.

External auditor

Deloitte LLP was appointed as the Group's external auditor in 2007. During the year Deloitte LLP was engaged as an adviser on a number of occasions. In order to maintain their independence, such appointments are only made in accordance with a protocol developed and embedded by the GAC. This provides that the external auditor should not carry out work where the output or recommendations are then subject to its review as external auditor. Work may be given to the external auditor where it is closely allied with the audit function or it is advantageous to the Group to use its external auditor in view of its knowledge and experience of RSA. This could

include accounting advice, regulatory returns, tax advice or due diligence work. All non audit work over £100,000 must be approved in advance by the CFO and all non audit work over £250,000 will be notified by the CFO to the GAC Chairman. With reference to the protocol, the GAC is satisfied that there are no matters that would compromise the independence of the external auditor or affect the performance of its statutory duties. Details of fees paid to Deloitte LLP during 2011 for audit and non audit work are disclosed in the auditor remuneration table in note 4 on page 108. There are no contractual obligations that restrict the Company's choice of external auditor.

The GAC has reviewed the independence, effectiveness and objectivity of the external auditor in 2011 and concluded that Deloitte LLP provided a service that was robust and fit for purpose. Deloitte LLP has confirmed its willingness to continue in office as external auditor of the Company for the year ending 31 December 2012. Accordingly the GAC has recommended to the Board that a resolution be put to the 2012 AGM for the re-appointment of Deloitte LLP as external auditor and the Board has accepted this recommendation.

So far as each Director 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.

Group Internal Audit (GIA)

The activities and effectiveness of the GIA are monitored and reviewed by the GAC. The GAC is responsible for ensuring that adequate access to information and resource is given to the Group Chief Auditor and for approving the appointment to, and removal of the holder from, that position.

The GIA reports to management on the effectiveness of the Company's systems of internal controls and the adequacy of these systems to manage business risk and to safeguard the Group's assets and resources. The GAC reviews and approves the annual Group Internal Audit Plan following presentations from the regional CEOs and regional auditors.

In 2010, an independent assessment of the internal audit function's effectiveness was carried out by PricewaterhouseCoopers LLP. The report concluded that the GIA was 'generally conforming' (the highest rating) with the standards of the Institute of Internal Auditors. Overall the function was in the upper quartile of internal audit functions within financial services companies. The report also concluded that there was a good relationship between the GAC and the regional audit or management control committees.

Financial Control Framework

The Financial Control Framework aims to deliver a consistent approach to finance related controls across the Group that is 'fit for purpose' for all regions, embedding a control culture that will strengthen the Group's finance environment by ensuring that the Group's financial processes are managed effectively in order to mitigate the associated risks. This is done by documenting and testing the way that core elements of the business operate, providing a high degree of transparency around the Group's financial control environment. The Group has people, procedures and tools embedded in the business to maintain and streamline the control environment and to provide ongoing reporting and assurance. Quarterly reports are presented to the GAC which include notification of any control deficiencies or breaches in the period and action taken.

Internal control

The Board has overall responsibility for the Group's internal control systems and for monitoring their effectiveness. Implementation and maintenance of the internal control systems are the responsibility of the Executive Directors and senior management.

The performance of internal control systems is reviewed regularly by the GAC and the Board annually reviews the effectiveness of the Group's systems of internal control in order to safeguard the Group's assets and shareholders' investment. This system includes governance, financial controls, the risk management framework and the process to deliver regulatory and compliance requirements. 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 2012, the GAC and the Board reviewed the systems of internal control in operation during 2011. No significant failings or weaknesses were identified.

The Board, through the GAC, receives reports from the Group Chief Auditor and her team on the integrity of the control environment and also receives reports from the external auditor based upon its audit work. The GAC also receives reports on the adequacy of the Group's arrangements for ensuring regulatory compliance from the Group Head of Regulatory Risk & Compliance. The Board, through the Board Risk Committee, considers reports from risk specialists across the Group and reviews Group-level risk management information.

A quarterly self-certification process is completed by business managers across the Group to confirm the adequacy of controls and their compliance with Company policies, local laws, rules and regulations.

The current reporting framework delivers information to monitor the systems of internal control and to review their effectiveness as required by the Code. The Board therefore considers that an ongoing process for identifying, evaluating and managing the significant risks faced by the Group has been in place during 2011 and up to the date of approval of the Annual Report and Accounts. This process is regularly reviewed by the Board and accords with the Turnbull Guidance on the Code.

Key features of the current internal control systems of the Group include internal audit, the corporate governance framework, dialogue with institutional shareholders, constructive use of the AGM and the areas described in this Accountability section.

BOARD RISK COMMITTEE (BRC) REPORT	
Number of meetings held in 2011	**5**
Noel Harwerth (Chairman)	5/5
George Culmer	5/5
Andy Haste[1]	4/4
Simon Lee[2]	1/1
Malcolm Le May	5/5

Notes:
1. Mr Haste resigned from the BRC with effect from 1 November 2011
2. Mr Lee was appointed to the BRC with effect from 1 November 2011

PRINCIPAL DUTIES OF THE BRC

- To recommend the Group framework of risk limits and risk appetite to the Board
- To recommend the quantum of capital required for the Individual Capital Assessment (ICA) and Economic Capital Assessment (ECA) to the Board
- To monitor the Group's implementation of Solvency II
- To ensure that material risks have been identified and mitigated appropriately
- To approve new and amended Group policies
- To approve the remit of the Group Risk team
- To review the Remuneration Report for any implications of the Group's remuneration policies for risk and risk management.

2011 HIGHLIGHTS

- Reviewed the Group's risk appetite and material risk profile
- Reviewed results of stress and scenario tests
- Considered emerging risks
- Cyclically reviewed and approved changes to Group policies
- Reviewed the quantum of the ICA and ECA capital models and made appropriate recommendations to the Board
- Reviewed risks facing the Group by risk type and region at each meeting
- Monitored progress on Solvency II compliance
- Reviewed the governance structure and control framework to ensure its effectiveness
- Carried out a survey on the committee's performance in 2011
- Reviewed the Group's risk appetite and material risk profile.

The committee is comprised of two Non-Executive Directors, the Group CEO and CFO. The Group Operations and Risk Director, Group Risk Director, Group General Counsel and Group Company Secretary, Group Director of Corporate Finance, Group Underwriting & Claims Director, Group Head of Regulatory Risk & Compliance and Regional Risk Directors are all regular attendees. Other senior management with experience relevant to specific agenda items are invited to attend from time to time.

The BRC has a standing agenda to ensure that all items within its terms of reference are covered by the committee and this is regularly reviewed to ensure it reflects the requirements of the Group, meets current best practice and industry guidance and includes items of topical relevance. This may include greater focus on specific risk disciplines or individual insurance portfolios as considered appropriate through pre-meeting discussions between the BRC Chairman and the Group Risk Director.

The minutes of the regional risk committees are provided to the BRC and the regional risk directors regularly present to the BRC.

During the year, the BRC has received regular updates from the Solvency II Steering Committee on the Group's preparation for the implementation of Solvency II and its impact on the business. Solvency II is a fundamental overhaul of the regulatory capital adequacy regime for insurers and reinsurers within the EU. The deadline for compliance with Solvency II has been postponed and the FSA is working towards an implementation date of January 2014. Solvency II also requires regulated insurers and reinsurers to have an effective system of governance in place which provides for sound and prudent management of the business. This includes ensuring that Board members possess sufficient relevant professional qualifications, knowledge and experience to ensure that, collectively, they provide sound and prudent management. There is an ongoing programme to document the governance policy and processes within each EU-regulated Group company to ensure that a consistent and high standard of governance is maintained throughout the Group, which includes training Directors on Solvency II and RSA's Internal Model.

The BRC oversees and challenges the results of stress and scenario tests carried out by the Group Risk team and the business. These tests are carried out each year with the involvement of senior executives to assess the Group's resilience in relation to extreme but plausible events that could have a material impact on the Group. The aim is to enable management to better understand the dynamics of the Group's risk profile, identify potential mitigation strategies for such events and act as a validation tool for both the Group's ICA process and its risk appetite.

These tests involve exploring a range of scenarios which could adversely impact the Group's assets, liabilities and/or operational performance. In particular, the impact of a Euro sovereign debt default, the collapse of the Euro, effects of social unrest and increases in inflation and interest rates have been explored. The results demonstrated the Group's resilience on both an absolute and relative basis to the scenarios considered. The results also allowed for the identification of potential additional management actions that could be taken to protect RSA's customers, shareholders and operations.

In addition to monitoring risks that are already recognised as material to the Group, the BRC monitors emerging risks that could threaten RSA's position of competitive advantage or successful delivery of strategy to ensure that plans are put in place where possible to mitigate such risks.

INVESTMENT COMMITTEE REPORT

Number of meetings held in 2011	2
Malcolm Le May (Chairman)	2/2
Alastair Barbour[1]	1/1
George Culmer	1/2
Noel Harwerth	2/2
Andy Haste[2]	2/2
Edward Lea	2/2
Simon Lee[3]	–/–
John Maxwell	1/2
John Napier	2/2
Jos Streppel[1]	1/1
Johanna Waterous	2/2

Notes:
1. Mr Barbour and Mr Streppel were appointed to the Investment Committee with effect from 27 October 2011
2. Mr Haste retired from the Investment Committee with effect from 1 November 2011
3. Mr Lee was appointed to the Investment Committee with effect from 1 November 2011. No further committee meetings took place in 2011 following his appointment

PRINCIPAL DUTIES OF THE INVESTMENT COMMITTEE

- To assist the Board in setting the Group's investment strategy
- To monitor the execution of that strategy and the Group's investment performance.

2011 HIGHLIGHTS

- Reviewed activity in the Group's investment portfolio
- Monitored investment strategy implementation and portfolio results.

The 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 committee is comprised of the Group CEO, CFO, Chairman and Non-Executive Directors. The Group Investments Director attends all meetings of the committee to provide an update on the economic and market background and outlook as these affect the Group, the investment activities taken since the committee last met and any portfolio actions which require the committee's approval.

Strategic themes relating to cash, bonds, equities and alternative yield assets were discussed during 2011, together with options for the Group to protect itself against inflation risks and the Group's exposure to peripheral Europe's sovereign debt. Details of the Group's investment activities are contained in the Business Review on pages 17 to 37.

NOMINATION COMMITTEE REPORT

Number of meetings held in 2011	5
John Napier (Chairman)	5/5
Edward Lea[1]	5/5
Malcolm Le May[2]	1/1
John Maxwell	5/5
Johanna Waterous[1]	5/5

Notes:
1. Mr Lea and Ms Waterous were appointed to the Nomination Committee with effect from 1 February 2011
2. Mr Le May retired from the Nomination Committee with effect from 1 February 2011 and following the first meeting of the year

PRINCIPAL DUTIES OF THE NOMINATION COMMITTEE

- To keep under review the capabilities required by the Board and the leadership needs of the Group
- Review succession planning for the Board
- To manage the process of identifying potential Board appointees, seeking advice from external advisers as appropriate for recommending candidates for assessment by the Board as a whole
- To make recommendations to the Board in relation to the re-appointment of any Non-Executive Director at the conclusion of his/her specified term of office.

2011 HIGHLIGHTS

- Assessed the performance of the Chairman, the Group CEO and the Senior Independent Director and recommended their re-election to the Board at the 2011 AGM
- Managed the process of identifying board appointees
- Recommended the appointment of a new Executive Director to the Board
- Recommended the appointment of two new Non-Executive Directors to the Board
- Following the resignation of Mr Haste, recommended the appointment of a new Group CEO.

With effect from 1 February 2011, Edward Lea and Johanna Waterous were appointed as members of the Nomination Committee and Malcolm Le May retired from the Nomination Committee. All members of the Nomination Committee, excluding the Chairman, are independent Non-Executive Directors. The Chairman chairs the Committee unless it is dealing with succession planning regarding his successor. The terms of reference for the Nomination Committee were revised and approved by the Board in March 2011.

When appointing new Directors, regard is given to the size of the Board, the balance of Executive and Non-Executive Directors, the skills and experience already represented, likely future retirements and those appointments to the Board which would be desirable going forward. RSA supports diversity within the boardroom, appropriate to and reflecting the global nature of the Company, its strategic objectives, and its regulatory status.

The Board appointed Edward Lea as the Company's Senior Independent Director on 27 January 2011. Adrian Brown was appointed to the Board as an Executive Director on 5 July 2011, having been the Chief Executive of the Group's UK business since September 2008. Following changes to RSA's operational structure which took effect from 1 January 2012, Adrian became the Chief Executive of the Group's UK and Western Europe business. Further details of the changes to the operational structure are contained in the Group CEO's Review on pages 10 to 15 and the Business Review on pages 17 to 37.

During the year, an external search agency specialising in the recruitment of Non-Executive Directors was engaged. A Non-Executive Director candidate specification was prepared setting out the role and capabilities required for the new appointments. Reports on potential appointees were provided to the committee members who, after careful consideration, made a recommendation to the Board. On 3 October 2011 and 10 October 2011, the Board appointed Jos Streppel and Alastair Barbour respectively as Non-Executive Directors. The appointment of the new Non-Executive Directors (as with the longer standing Non-Executive Directors) is subject to specific terms of appointment as detailed in their respective letters of appointment.

On 1 November 2011, Andy Haste stepped down as the Group CEO and was succeeded by Simon Lee who has been Chief Executive of International since April 2003 and an Executive Director since January 2007. Mr Haste retired from the Board on 31 December 2011.

On 21 November 2011, it was announced that George Culmer was to resign to take up the position of Group Finance Director of Lloyds Banking Group plc. George Culmer will remain as a Director and Chief Financial Officer of RSA until the close of business on 14 May 2012. He will be succeeded by Richard Houghton who will join the Group in June 2012.

Remuneration Committee

Full details of the activities and duties of the Remuneration Committee can be found in the Remuneration Report on pages 57 to 71.

RELATIONS WITH SHAREHOLDERS

Dialogue with institutional shareholders

The Board attaches considerable importance to its relationships and communication with shareholders and welcomed the introduction of the UK Stewardship Code in 2010. Senior management meet principal institutional shareholders on a regular basis and Non-Executive Directors are available to meet with institutional shareholders as required. Executive Directors held 67 meetings with investors during 2011. The Board receives regular reports from the Investor Relations team on the views of institutional shareholders. Presentations and meetings are conducted in compliance with the Company's Inside Information Policy and the Disclosure and Transparency Rules to ensure that inside information is not disclosed prior to it being made available to shareholders generally. General shareholder information is also available on the Group's website: **www.rsagroup.com/rsa/pages/ir/shareholderservices.**

Annual General Meeting

The AGM will be held at the Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE on Monday, 14 May 2012 at 11.00am. A letter from the Chairman and the notice convening the AGM (Notice) is available to all ordinary shareholders (and preference shareholders when applicable) at least 20 working days before the meeting and is available at **www.rsagroup.com/agm2012.**

The Group CEO presents on the Company's performance and activities during the year and the CFO presents the financial results of the Company prior to the formal business of the meeting. All Directors are requested to attend the AGM and the Chairman and the Chairmen of each Board committee make themselves available to take questions from ordinary shareholders at the AGM.

Separate resolutions are proposed on each substantive issue, including a resolution to adopt the Annual Report and Accounts. In accordance with the provisions of the Articles of Association (Articles), any form of proxy sent by the Company to shareholders in relation to any general meeting must be delivered 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 is the holder. Each resolution was put to a poll at the AGM in 2011. The results of the vote on each resolution are announced to the London Stock Exchange and are available on the Company's website.

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.

Substantial share interests

The following table shows the holdings of major shareholders in the Company in accordance with the Disclosure and Transparency Rules as at 31 December 2011 and the date of this Report.

	At 31 December 2011			At 22 February 2012		
	No. of Ordinary shares	**% of voting rights**	**Nature of holding**	No. of ordinary shares	% of voting rights	Nature of holding
Lloyds Banking Group plc	**246,760,305**[1]	**7.00**	**Direct and Indirect**	–[2]	–[2]	–[2]
Blackrock, Inc	**188,217,284**	**5.46**	**Indirect**	188,217,284	5.46	Indirect
Schroders plc	**170,851,201**	**4.95**	**Direct and Indirect**	170,851,201	4.95	Direct and Indirect
Newton Investment Management Ltd	**168,455,475**	**4.88**	**Indirect as discretionary investment manager**	168,455,475	4.88	Indirect as discretionary investment manager
Standard Life Investments Ltd	**152,266,879**	**4.42**	**Direct and Indirect**	152,266,879	4.42	Direct and Indirect
Legal & General Group plc	**136,295,990**	**3.99**	**Direct and Indirect**	136,295,990	3.99	Direct and Indirect

Notes:
1. 242,643,597 shares (6.884%) are under the control of Scottish Widows Investment Partnership Ltd, a wholly owned subsidiary of Scottish Widows Investment Partnership Group Ltd, a wholly owned subsidiary of Scottish Widows Group Ltd, a wholly owned subsidiary of Lloyds TSB Bank plc, a wholly owned subsidiary of Lloyds Banking Group plc.
2. The Company was informed on 31 January 2012 that the indirect holding of Lloyds Banking Group plc had decreased below the reporting threshold of 5%.

OTHER STATUTORY INFORMATION

Employment policy

The Group's employment policy reflects its belief that motivated and skilled employees are critical to the Group's success.

The Group is committed to the promotion of equal opportunities for all employees. This involves recruiting, engaging, retaining, rewarding and developing people solely on the grounds of ability to carry out the role and establishing and promoting a working environment which is free from discrimination. In order to do this, the Group ensures that any reasonable adjustments are made, where it is appropriate to do so, to provide equal opportunities to all in respect of recruitment, terms and conditions of employment, promotions, transfers, grievances, redundancies and vocational training. The Group is committed, wherever possible, to supporting the rehabilitation and return to work of employees who become disabled during their career with RSA. Information on the diversity of RSA's workforce can be found in the Corporate Responsibility Report available at **www.rsagroup.com/corporate-responsibility.**

The Group is committed to fostering a constructive relationship with recognised independent trade unions, ensuring a regular and open dialogue on business issues and early consultation on changes affecting the workforce. In the UK, Unite is formally recognised through a partnership agreement which covers collective consultation and bargaining on behalf of non-management employees. The Management Association (TMA) represents managerial employees under a separate consultative agreement. In Scandinavia, the Group has formal meeting forums with the national unions, where the Group informs and negotiates changes affecting the workforce. Within our CNS operation in British Columbia, Canada, we have a collective bargaining agreement with the Canadian Office and Professional Employees Union. The European Consultative Forum (ECF) is a cross European body created to enable information sharing and consultation on transnational issues with our European workforce.

The Group continues to focus on the training and development of employees in order to ensure they can deliver high levels of performance and customer satisfaction. RSA believes it can create competitive advantage by building and maintaining a high performance culture across the Group.

The Executive Development Programme is a challenging, world class development programme for RSA's top leaders which aims to build RSA's strategic leadership capability. It is sponsored by the Executive Team who are actively involved in the programme and sponsor projects. Participants work in global teams on strategically important business challenges, researching the issues and recommending a solution. This programme has contributed to the expansion of both our Renewable Energy business and our Central and Eastern Europe operations.

The Leadership Development Programme, which recently won the Chartered Institute of Personnel Development (CIPD) award for the Organisational Learning category, aims to develop business, growth and people leadership skills in those with the potential to move into a country or regional senior management role. It is a nine month programme consisting of three modules, designed to build capability in core areas of leadership. This incorporates a strategic project based on current business challenges.

The Fast Track programme is aimed at growing our emerging leadership talent (employees who are in their second or third role after graduating) who have already demonstrated high performance and leadership ability. The programme is structured to equip our future leaders with the commercial understanding and leadership capabilities they will need to thrive; exposing them to global networking opportunities, in-depth self-analysis and development and performance coaching to encourage rapid career development.

In addition to the Executive Development Programme, Leadership Development Programme and Fast Track Programme the Group has three Academies: Marketing, Technical and Operational Effectiveness and in 2010, launched an online 'Learning Zone' that offers a broad range of training and development to over 20,000 employees around the world.

The Marketing Academy was set up to support our ambition of building a world class marketing function for RSA by professionalising our marketing activity. Both e-learning and face-to-face training courses are run throughout the year. So far, over 300 marketers from 12 countries have attended the foundation course as well as additional specialist master-classes.

The Technical Academy aims to continually enhance the technical capability of RSA's Underwriting, Claims and Actuarial community by providing training programmes, identifying talent, ensuring there are structured career pathways for technical staff, developing global best practice and standards as well as supporting and recognising the attainment of technical skills and qualifications.

The 'Learning Zone' is available in 13 languages in 28 countries. There are over 2,000 learning resources directly available on the 'Learning Zone'. Employees can access thousands of e-books and audio books that can be downloaded to a computer, mobile device or Kindle. We are also using webinars and 'Connect' (a social platform for learning and communication) to facilitate bringing global teams and professional communities together.

Every September we run a global engagement survey of employees using the Gallup Q12 questions, which measure the key drivers of engagement. The survey is completed by circa three million people globally and is open to all employees across the Group. We have amongst the highest participation of any client Gallup works with and in 2011, saw our highest participation ever, with 94% completing the survey.

Since 2008, we have achieved significant year on year improvements. In 2011, we achieved a Grand Mean score of 4.34 (out of a maximum score of five) which places RSA in Gallup's top quartile of companies. We are the highest ranked insurer in the Gallup database and rank in the top three companies globally within the financial services sector.

RSA encourages employee share ownership through employee share plans. Employees from 22 of the 33 countries in which RSA operates are invited to participate in Sharesave (SAYE) and the overall take up by eligible employees is 39%. Sharebuild has now been running for two years in the UK and 33% of eligible employees participate. Further details on the Group's share schemes can be found in the Remuneration Report on pages 57 to 71.

RSA also encourages employees to participate in discount schemes for employees and their families. The Staff Saver Scheme in the UK currently has approximately 11,800 Staff Saver policies in force (2010: approximately 7,800 policies in force).

Employees are kept well informed of the overall performance and objectives of the Group. Communications are regularly provided through face to face meetings and presentations, by email, intranet articles and staff publications. Key messages from the biannual Group Leaders Conferences are disseminated to teams by the Group CEO via Webex and through local management.

The Group actively encourages employees to become involved in supporting their local communities. Further details are provided in the Corporate Responsibility Report on pages 34 to 37.

Principal activity

The Company is the holding company of the RSA Insurance Group plc group of companies whose principal activity is the transaction of personal and commercial general insurance business. The Group operates in 33 countries and provides general insurance products and services in around 140 countries.

Business review and management report

Section 417 of the Companies Act 2006 requires the Directors to present a business review in this Report. The information that fulfils this requirement can be found on pages 1 to 37, and is incorporated by reference into this Report.

The Business Review has been prepared to the best of the Directors' knowledge in order to provide the Company's shareholders with a fair review of the development and performance of the Company and the Group as a whole, together with a description of the principal risks and uncertainties which may affect the Group. It may not be relied upon for any other purpose.

Information about the use of financial instruments by the Company and its subsidiaries and its risk management policies is disclosed in the Introduction and the Business Review on pages 1 to 37, in the Significant Accounting Policies on pages 80 to 88, Risk Management on pages 93 to 102 and note 12 on pages 116 to 117.

Disclosure and Transparency Rule 4.1.5(2) also requires the Annual Report to include a management report. The information that fulfils this requirement can be found in the Introduction and the Business Review on pages 1 to 37 and the Directors' Report on pages 44 to 56.

Events after the reporting period
No material events have occurred since 31 December 2011.

Dividends
The Directors recommend a final dividend of 5.82p per ordinary share to be paid on 25 May 2012 to holders of ordinary shares on the register at the close of business on 30 March 2012, subject to ordinary shareholder approval. This, together with the interim dividend of 3.34p per ordinary share, will make a total dividend for the year of 9.16p per ordinary share.

The preferential dividend at the rate of 3.6875% for the period from 1 October 2011 to 31 March 2012 will be paid on 30 March 2012 to holders of preference shares on the register at the close of business on 2 March 2012.

Environmental programme
Details of our environmental programme can be found on pages 34 to 37 of the Business Review and on the Group's website at **www.rsagroup.com/corporate-responsibility.**

Share capital
Details of the Company's share capital, together with details of the movements in the Company's issued share capital during the year are shown in note 18 on page 120. Directors are still limited as to the number of shares they can allot (save in respect of employee share schemes). The current authority allows Directors to allot securities up to a nominal amount of £320,667,149 and renewal of the Directors' authority to allot shares will be sought at the 2012 AGM. During 2011, the Directors exercised their authority to allot in respect of employee share schemes and the scrip dividend scheme.

The Company has two classes of shares: ordinary shares of 27.5p each and preference shares of £1 each. Each ordinary share carries the right to one vote at general meetings of the Company and no right to fixed income. The rights attaching to the preference shares are detailed in note 18 on pages 121 to 122. As at 31 December 2011, the ordinary shares and the preference shares represented 96.6 % and 3.4 % respectively of the total issued share capital.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles 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 349,818,708 of its own ordinary shares (representing 10% of its issued share capital as at 21 March 2011) remained in force at 31 December 2011.

The Company operates four employee benefit trusts to hold ordinary shares in RSA which are used to satisfy exercises under the Group's share incentive schemes and Capita Trustees Limited is the current Trustee of each trust. The Trustee may vote in respect of any shares held in the Trusts but has no obligation to do so and, in respect of the Royal & SunAlliance ESOP Trust No. 3, the Trustee may have regard to the financial interests of the beneficiaries in exercising its voting rights over the Company's shares.

Supplier payment policy
It is the Group's policy to agree appropriate terms and conditions in advance with its suppliers and to make payment in accordance with those terms and conditions, provided the supplier has complied with them. In most cases, agreements for the supply of goods or services are made under standard terms of contract that lay down payment terms. In the UK, these are available on request from UK Strategic Sourcing, Leadenhall Court, 1 Leadenhall Street, London EC3V 1PP.

The Company's outstanding indebtedness to trade creditors on 31 December 2011 amounted to £3.5m, corresponding to 18 days' payment when averaged over the year.

Related party transactions
Related party transactions are set out in note 32 on page 140.

Essential contracts
The Company does not consider that it, or any of its subsidiaries, has any contractual or other arrangements that are essential to the success of the Group that is required to be disclosed pursuant to section 417 of the Companies Act 2006.

Charitable and political donations
The Company and its subsidiaries worldwide made charitable donations of £2.6m (2010: £2.4m) during the year, of which £0.7m (2010: £1.2m) related to donations made to UK based charities. The Group's Community and Charitable policy prohibits political donations.

Directors' conflicts of interest
Each Director is required to notify the Group General Counsel and Group Company Secretary when a conflict of interest arises and the Board reviews Directors' conflicts of interest annually. Under the Articles, the Board may authorise any conflict of interest. The conflicted Director 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 is under consideration. Where a conflict of interests is authorised, the Board may impose such restrictions on the conflicted Director as they deem appropriate, such as excluding the Director from receipt of information or discussions.

None of the Directors had any interest in any other contract with the Company or any of its subsidiaries during 2011 save that a number of Directors have taken out personal lines insurance with the Group.

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 2011.

Articles of Association

The Company's Articles may be amended by special resolution of the Company's ordinary shareholders. New Articles were adopted at the 2010 AGM and are available on the Group's website at **www.rsagroup.com/rsa/pages/ir/governance/articles.**

Borrowing powers

The Directors restrict the borrowings of the Company so that the aggregate amount, for the time being, remaining borrowed by the Group is not, without the previous sanction of an ordinary resolution of the Company, more than one and a half times the aggregate of:

- The amount paid up on the issued share capital of the Company
- The total of the capital and revenue reserves of the Group (subject to certain adjustments).

Directors' indemnity

Article 140 of the Articles 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. The indemnities granted constitute qualifying third party indemnity provisions (as defined by section 234 of the Companies Act 2006). The Board 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 236 of the Companies Act 2006.

Directors' responsibility statement

The Directors' responsibility statement appears on page 74 and is incorporated by reference into this Report.

By order of the Board

Derek Walsh
Group General Counsel and Group Company Secretary
22 February 2012

REMUNERATION REPORT

The following report by the Remuneration Committee (the Committee) has been approved by the Board, for submission to shareholders at the 2012 AGM.

Deloitte LLP has audited the following items, as stipulated by law:

- The table of Directors' emoluments and associated footnotes on page 67 and the disclosure of the items comprising benefits in kind
- The tables of defined benefit and defined contribution pensions on page 68 and associated footnotes
- The table of disclosure of Directors' share options and share awards on pages 69 to 71 and associated footnotes.

In constitution and operation, the Committee complies fully with the Corporate Governance Code as described in the Directors' and Corporate Governance Report on page 44.

The Committee's responsibilities are set out in its terms of reference which are available to shareholders on request and on the Group's website at **www.rsagroup.com/rsa/pages/ir/governance/mgtcommittees**. The Committee welcomes continuous and open dialogue with shareholders on remuneration policy.

Duties and Activities of the Committee

The Remuneration Committee is a formal Committee of the Board, accountable to shareholders through its policies, actions and decisions which are contained in the annual Remuneration Report, upon which shareholders vote at the AGM. Its principal duties are:

- To determine the terms and conditions and remuneration of the Chairman of the Board and the Executive Directors
- To oversee the operation of the Company's cash and share-based incentive plans, including approving the value and timing of awards and setting and monitoring performance conditions
- To consider and give advice to the Board on the Group's broader remuneration policy in relation to the Executive Committee Directors (Executive Team) whose members are shown on pages 42 and 43
- To have regard to any concerns raised by the Board on the implications of the remuneration policy for risk and risk management
- To provide a draft of the Remuneration Report to be included in the Company's Annual Report and Accounts to members of the Board Risk Committee for review in respect of risk and risk management (to the extent not reviewed by the Board as a whole).

The Committee is required under its terms of reference to meet at least twice each year, but meets as often as is necessary throughout the year to ensure that it is able to fully report to the Board and shareholders on all relevant matters. In 2011, the Committee met seven times and discussed, amongst other things, the subjects described in the table on page 58.

Membership of the Committee

Members of the Committee have no personal financial interest, other than as shareholders, in the Committee's decisions and they have no conflict of interest arising from cross directorships.

All Committee members are independent non-executive directors except for John Napier, Board Chairman, who was judged to be independent on the date of his appointment to the Board. Fees for serving as a Committee member and chairing Committees of the Board are described in the Non-Executive Directors' section of this Report on page 66. Malcolm Le May was also a member of the Board Risk Committee during the year. This is to help ensure that decision-making on remuneration matters properly takes into account the Group's risk appetite. Members' attendance at the Committee meetings held in 2011 was as follows:

	Regular	Additional
Number of meetings held in 2011	**6**	**1**
Edward Lea	5/6	1/1
Malcolm Le May	6/6	1/1
John Maxwell (Chairman)	6/6	1/1
John Napier	6/6	1/1
Jos Streppel[1]	1/1	–

Notes:
1. Mr Streppel was appointed to the Remuneration Committee with effect from 27 October 2011.

Attendees at Committee Meetings

During 2011, a number of executives attended Committee meetings by invitation to advise on Group strategy, Company performance, HR policies and remuneration policies and practices. None of the attendees have a right to be present and do not attend when their own remuneration is discussed.

During the year, the Committee obtained its principal advice from Towers Watson, which was appointed by the Committee in 2009. Representatives from the firm attended each of the seven Committee meetings held in 2011. In addition to providing independent advice to the Committee, Towers Watson advised the Company on a range of remuneration-related matters in the year.

Remuneration Committee Attendees	Position
Derek Walsh	Group General Counsel (Secretary to the Committee)
Andy Haste[1] and Simon Lee[2]	Group Chief Executive
Orlagh Hunt[3] and Vanessa Evans[4]	Group Human Resources Director
Tim Rolfe[5] and Leigh Harrison[6]	Group Reward and Pensions Director
Representatives of Towers Watson	Independent advisers to the Remuneration Committee

Notes:
1. Ceased attending the Remuneration Committee after 20 September 2011.
2. Commenced attending the Remuneration Committee from 20 September 2011.
3. Ceased attending the Remuneration Committee after 20 September 2011 due to maternity leave.
4. Commenced attending the Remuneration Committee from 26 July 2011.
5. Ceased attending the Remuneration Committee after 19 July 2011.
6. Commenced attending the Remuneration Committee from 17 October 2011.

Summary of the Remuneration Committee meetings held in 2011

Meeting	Standard agenda items	Additional items discussed
January	• Approval of the performance conditions and the Executive Directors' conditional awards under the Long-Term Incentive Plan (LTIP) in 2011 • Review of the measurement of the relative Total Shareholder Return (TSR) performance condition applying to conditional awards granted under the LTIP in 2008 and approval for awards to vest • Approval of the 2010 Remuneration Report • Review of the 2011 objectives and performance goals for each Executive Director.	
March (two meetings)	• Review of Executive Directors' base salaries. • Determining the outcome of annual bonuses for 2010 in the light of actual performance against agreed goals and objectives for each Executive Director • Review of the measurement of the Return on Equity (ROE) performance condition applying to conditional awards granted under the LTIP in 2008, and approval for awards to vest • Review of the forecast of share usage for LTIP awards and approval of the grant of awards in April 2011 • Review of proposals for the annual bonus plan for 2011.	• Review of the Remuneration Committee's Terms of Reference.
July	• Confirmation of the LTIP awards made in April 2011 • Approval for the grant of conditional LTIP awards in September 2011 • Approval to operate the all-employee share plans (Sharesave and Sharebuild) in 2011.	• Review of TSR performance for LTIP grants in 2008 to 2010 • Review and approval of the remuneration applying to Adrian Brown, following his appointment to the Board.
August		• Approval of Simon Lee's remuneration package as Group Chief Executive.
September	• Review of the level of take up under Sharesave and Sharebuild • Review of share usage following the grant of awards under the LTIP in September 2011.	• Update on the impact of regulatory changes in Scandinavia affecting the remuneration arrangements of material risk takers.
December	• Update on performance of the annual bonus plan 2011 and LTIP cycles for 2009, 2010 and 2011.	• Approval of minor revisions to the LTIP rules enabling the plan to be compliant with regulation in Sweden and Denmark • Updates on corporate governance and pension tax changes • Approval of the terms relating to Andy Haste's resignation • Review of incentive plan benchmarking analysis • Commenced an effectiveness review of the Committee (reported on in the Corporate Governance Report on page 47).

Remuneration policy principles

The continuing focus of the Committee is on maintaining a strong link between performance and reward. It is the Committee's view that shareholders' interests are best served through a remuneration structure which contains a significant element of deferred performance-related pay, supporting the existing Group-wide culture of high performance and accountability, without undue risk.

The key principles which underpin the remuneration policy are consistent with those applied across the Group, namely that:

- Total remuneration is set at a competitive level which enables the recruitment, retention and reward of high-quality executive talent
- There is a strong and visible link between remuneration and performance: only exceptional levels of performance will generate exceptional levels of total reward
- A high proportion of the Executive Directors' variable pay is made in the form of shares which aligns their interests with those of shareholders, and this is further strengthened by the share ownership guidelines which are detailed on page 65
- A balance of short and long-term performance measurement is used, incorporating appropriate financial and non-financial targets
- Remuneration policy and practice is transparent to shareholders
- Where relevant, there is consideration of environmental, governance and social risks when determining remuneration for Executive Directors and senior managers to ensure that positive and appropriate behaviours are reinforced.

The policies relating to each element of remuneration are set out in the table below

Remuneration	Policy
Base salary	Base salary is set with reference to equivalent roles in similar companies and the sustained performance of the executive.
Annual incentive plan awards	Annual incentive plan awards are related to stretching performance targets and are capped at 160% of base salary. For maximum bonuses to be achieved, outstanding Company and individual performance must be demonstrated.
Long-term incentive plan awards	Conditional share awards are made on an annual basis to ensure alignment with shareholders' interests. Other than in exceptional circumstances, grants of Performance Shares are capped at 150% of salary.
Pension provision and other benefits	Employment benefits are set in line with arrangements made in similar companies to be market competitive. Pension provision is at a level which allows executives to plan effectively for their eventual retirement.

During 2011, the Company announced the resignation of two Executive Directors: Andy Haste and George Culmer, both of whom have made a significant contribution to the success of the business during their respective tenures.

Andy Haste left the Company on 31 December 2011 with the Board's approval, and following significant planning and hand-over to the incoming Group Chief Executive, Simon Lee, in accordance with the Company's succession plan. Andy was therefore treated as a "good leaver" in light of his performance and commitment to the Company. His leaving arrangements include a cash bonus in respect of the 2011 financial year, unvested shares under the long-term incentive plans and a payment to reflect the remaining part of his notice period; further details of these terms are set out in each relevant section of this report.

George Culmer tendered his resignation in November 2011 and he will leave the Company in May 2012 to join Lloyds Banking Group plc. As a consequence, he did not receive a bonus award in respect of 2011 performance. He will also forfeit all shares issued to him through the Company's incentive plans that remain unvested at the date his employment ceases.

Elements of remuneration

Remuneration for Executive Directors in 2012 will consist of the four principal elements described in the table on page 59, of which only base salary is pensionable:

Remuneration	Purpose	Delivery	Detail
Base salary	To reflect the market value of the role and the skills, experience and performance of the individual.	Paid in cash on a monthly basis and is pensionable.	Reviewed annually, changes are effective from 1 April. Benchmarked against equivalent roles in similar companies (having regard to the market median) and with reference to the sustained performance of the executive.
Annual performance bonus	To incentivise the delivery of annual goals at Group, business division and individual levels.	The maximum bonus opportunity is 160% of base salary. Up to 120% of base salary can be awarded as a cash bonus, and up to 40% of base salary can be issued in the form of compulsory Deferred Shares. These shares are held on behalf of the director for three years, subject to continued employment. Executive Team members are expected to defer an additional element of their cash bonus so that the total deferral is around 50% of the total cash bonus award.	Financial performance in 2012 will be measured through stretching targets based on COR and NWP performance according to Group and business divisions. Individual targets are approved by the Committee and reflect stretching financial and non-financial measures.
LTIP	To reward the creation of sustained growth in shareholder value and to align managements' interests with those of shareholders.	Performance Shares are awarded subject to stretching underlying ROE and relative TSR performance conditions. Matching Shares can vest according to the level of share deferral, subject to stretching performance conditions.	Entry into the LTIP is discretionary – award levels and participation are reviewed annually. Full details of the performance conditions and vesting are described on pages 63 and 64.
Pension	To provide appropriate and market competitive post retirement benefits.	Delivery is through deferred remuneration into a defined benefit or defined contribution scheme and/or through taxable cash payments made on a monthly basis.	Cash payments are provided if pension participation cannot be maintained (in full or in part) due to HM Revenue and Customs tax limits.

The Committee has agreed that a review of the Company's remuneration arrangements will be conducted during 2012, with a particular focus on short and long-term incentives. This review will seek to implement leading practice, where this is appropriate for the Company, and strengthen the alignment of managements' interests with those of shareholders. It is anticipated that a new long-term incentive plan will be tabled for shareholder approval at the AGM in 2013.

The following charts set out the elements of the Executive Directors' remuneration for 2011. The bonus value is based on the cash bonus plus the fair value of the compulsory Deferred Shares granted in 2011. The LTIP value is based on the fair value of awards of Performance Shares (as defined on page 63) and an expected value of half of the maximum potential number of matching shares that may vest (subject to performance) relating to voluntary and compulsory Deferred Shares granted under the LTIP in 2011.

The chart in respect of George Culmer reflects that no bonus was awarded for 2011 performance and while the share grants are noted, these will not vest.

Andy Haste (%)

Salary	23
Bonus	30
LTIP	47

Simon Lee (%)

Salary	36
Bonus	29
LTIP	35

George Culmer (%)

Salary	30
Bonus	11
LTIP	59

Adrian Brown (%)

Salary	26
Bonus	30
LTIP	44

Base salary

Base salaries for Executive Directors and members of the Executive Team are set on appointment with reference to market data which is used as a guide alongside other relevant factors, such as level of experience and scale of role.

To enable the Group to compete for the most talented executives, the Committee references base salary levels to market data at the median level for equivalent roles in similar companies facing similar levels of complexity and challenge in the UK and internationally. The Committee also has regard to levels of base pay within European and international companies, where appropriate.

The Committee is alert to market concerns surrounding boardroom pay in general and it closely monitors both base salaries and total remuneration for Executive Directors in light of the market, in addition to both individual and corporate performance. The Committee also has regard to the levels of pay increases available for all employees, as well as other forms of remuneration including short and long-term variable pay. Salary review decisions are therefore made "in the round", taking into account the impact of salary increases on other forms of remuneration. The Committee remains confident that the structures and processes in place for reviewing salaries are robust.

2011 Pay review

For the second consecutive year, the Remuneration Committee made no base salary increases in respect of Andy Haste and George Culmer, as their level of remuneration was considered to be appropriate and remained market-aligned. During the year, Simon Lee's base salary rose to reflect his appointment as Group Chief Executive and Adrian Brown received a salary increase upon his appointment to the Group Board.

The current base salaries paid to each Executive Director are:

	Current Position	Base salary
Simon Lee	Group Chief Executive	£800,000
George Culmer	Chief Financial Officer	£556,500
Adrian Brown	Chief Executive, UK & Western Europe	£475,000

At the time Andy Haste left the Company, his annual base salary was £955,500.

The following table sets out the base salaries of UK-based executives below Board level on a banded basis as at 31 December 2011. No executive within this group received a base salary in excess of £475,000 (i.e. the current salary of the lowest paid Executive Director).

Base salary range	Number of employees
£250,001 and over	12
£200,001 – £250,000	18
£150,001 – £200,000	45

Annual Incentive Plan

The Executive Directors and the Executive Team participate in an annual incentive plan. The Committee reviewed the incentive opportunity of the Executive Directors and the Executive Team and determined that it should reduce from a maximum of 180% of salary to 160% of salary for 2011 and 2012. At an on-target level of performance, Executive Directors can receive a cash bonus of 60% of base salary and shares worth up to 20% of base salary can be awarded. For outstanding performance, a maximum cash bonus of 120% of base salary and shares worth up to 40% of base salary can be awarded. At the Committee's discretion, executives may be invited to voluntarily invest up to a further 33% of the net cash element of their bonus into shares (Voluntarily Invested Deferred Shares), which are held for a three-year deferral period.

The measures used for determining the amount of bonus payable to each executive are a combination of stretching financial targets and the results of a structured assessment of each executive's performance against a set of defined and measurable role-specific objectives, many of which have a financial context.

Role-specific measures are reviewed and approved by the Committee early in the financial year. The Group Chief Executive's performance is assessed annually by the Chairman of the Board and members of the Committee. The Group Chief Executive carries out a similar assessment for each of his direct reports, subject to review and approval by the Committee in the case of Executive Directors. Assessments also take account of appropriate leadership styles and each executive receives a performance rating against a standard scale used at all levels in the business.

UK-based executives who are members of the Group's senior leadership team (Top 100) participate in a bonus plan which is structured in the same way and is assessed using the same financial measures as applying to the Executive Directors and the Executive Team. For outstanding performance, a cash bonus of up to 80% of base salary can be awarded, in addition to compulsory Deferred Shares worth up to a further 26.4% of base salary.

In 2011, performance was measured against combined operating ratio (COR) and net written premium (NWP) targets. COR is a key indicator which captures the underlying strength and performance of an insurance business. COR targets account for three quarters of the financial targets. NWP is an indicator of growth and accounts for one quarter of the financial targets. To achieve focused incentivisation, financial targets for each Executive Director and members of the Executive Team are weighted towards the geographic areas of the business for which they have primary responsibility.

During the year, Andy Haste and George Culmer were incentivised to achieve a combination of targets relating to the overall Group COR and NWP results and the COR results of the regional operating businesses. The financial targets in relation to Simon Lee and Adrian Brown were weighted towards the International and UK businesses, respectively, while they also retained a target for the Group COR result as a whole. However, Simon Lee's financial targets changed to reflect those given to Andy Haste from 1 November 2011, in line with his appointment as Group Chief Executive.

Bonuses paid to Executive Directors in respect of the 2011 financial year are included in the table of Directors' emoluments on page 67. The Committee is satisfied that the bonus payments made in respect of 2011 are appropriate given the COR and NWP results delivered across the Group throughout the year, in addition to the contribution made by each Executive Director.

The Committee agreed that it would apply discretion to award a cash bonus to Andy Haste in recognition of his leadership during the year and taking into account the strong financial results that the Company has delivered. He will not, however, receive any deferred shares arising from performance in 2011. George Culmer forfeited the bonus award that would have been made to him in respect of 2011 when he tendered his resignation from the Company.

For performance in 2012, bonus awards will be subject to the achievement of stretching COR and NWP targets and role-specific measures.

Long Term Incentive Plan (LTIP)

The Group's long-term incentive plan (LTIP) was introduced in 2006 to drive sustainable, long-term returns and it covers Executive Directors, the Executive Team and Top 100. There are three main types of award that can be granted to participants and these are covered on page 63. LTIP awards are funded through a combination of new issue and market purchase shares.

Performance Shares
Executive Directors may receive a conditional award of Performance Shares with the grant level and performance condition determined by the Committee prior to each grant. Account is taken of personal performance in determining the scale of the award granted to each Executive Director. For executives below this level, awards are made based on a formula which relates the size of award to individual performance, as measured through the annual performance appraisal process. In any year, the face value of Performance Shares granted to any individual will be limited to 150% of base salary in normal circumstances, subject to an overriding cap of 250% of base salary in exceptional circumstances such as executive recruitment or retention.

Performance Shares vest following the testing of performance conditions which are measured over three financial years, and provided the executive remains in employment with the Group (other than in exceptional circumstances such as death or retirement at normal retirement age).

In 2012, awards of Performance Shares made to Executive Directors and the Executive Team will be limited to a maximum face value of 150% of base salary; however, the Committee has agreed that by exception, Adrian Brown's award for 2012 will be granted at 250% of salary in recognition of the critical nature of his role.

Deferred Shares
As described in the annual incentive plan section on page 62 Executive Directors may be granted Deferred Shares as part of their annual bonus award (compulsory Deferred Shares). These Deferred Shares are held in a Trust and normally vest three years from the date of grant, subject to continued employment with the Group. During the three-year holding period, the Deferred Shares must remain in the Trust.

Each year, Executive Directors, members of the Executive Team and the Top 100 may be invited to invest up to 33% of their net cash bonus award into shares (Voluntarily Invested Deferred Shares). Unlike the compulsory Deferred Shares, Voluntarily Invested Deferred Shares are not at risk of forfeiture.

Matching Shares
Executive Directors, members of the Executive Team and the Top 100 are eligible to receive a further conditional award of matching shares (Matching Shares) based on the number of compulsory and voluntary Deferred Shares awarded to them and held in the Trust on their behalf. Matching Shares will vest after three years subject to the stretching performance conditions set out below and provided the individual remains in employment with the Group (other than in exceptional circumstances such as death or retirement at normal retirement age).

The Remuneration Committee has determined that it will reduce the maximum award opportunity available to Executive Directors and the Executive Team through Matching Shares. In 2011 and 2012, at a threshold performance, the matching ratio will be 0.5:1. The maximum matching ratio for Matching Shares to Deferred Shares will be 2:1, calculated on the gross value of the bonus invested in Deferred Shares. Since 2006, the Matching Share ratio has been 0.625:1 at threshold performance up to 2.5:1 at maximum vesting.

Performance conditions
The Committee will determine the performance condition for each grant of Performance Shares and Matching Shares, with performance measured over a single period of three years with no provision to retest. In 2012, grants of Performance Shares and Matching Shares related to compulsory Deferred Shares will be subject to a performance condition consisting of a combination of ROE and TSR targets.

ROE has been selected as the measure of financial performance as it is one of the key measures of overall business performance and is visible externally to shareholders. The TSR performance condition has been designed to provide alignment between executive remuneration and shareholder interests and to ensure that an element of the package is linked directly to share price performance. The comparator group has been selected to ensure that performance is compared fairly against a group of similar companies operating in a similar competitive environment. The use of ROE and TSR in combination provides a balanced approach to the measurement of Company performance over the longer term.

As in 2011, ROE will be given greater prominence than relative TSR in 2012, to underline the Company's commitment to improving the returns that it generates on its balance sheet. The vesting of 70% of the LTIP awards will be based on reported ROE performance and 30% on relative TSR performance (with the exception of Matching Shares attaching to voluntary Deferred Shares, the vesting of which will remain dependent solely on the ROE performance condition). The range of ROE performance targets has remained unchanged since 2009 and in respect of the performance periods yet to conclude, is from 10% (25% of the ROE related award vests) to 16% (100% of the award vests). Between these levels the award will vest on a straight line basis.

The element of the award which will vest according to TSR performance (30% of the total award) is measured against the comparator group of UK and international financial services companies shown below. If TSR performance is at the median compared with the comparator group, 25% of the award will vest, with 100% of the award vesting if performance is in the upper quintile. Between these levels the award will vest on a straight line basis. Additionally, before any shares subject to the TSR condition vest, the Committee must be satisfied that the Company's TSR performance is reflective of underlying financial performance.

The TSR comparator group consists of the following companies:

TSR comparator group	
Aegon	Allianz
AXA	AVIVA
Baloise	Generali
Legal & General	Munich Re
QBE	Swiss Re
Zurich Financial Services	

The Committee reviews, on an ongoing basis, the composition of the comparator group and will consider adding companies for future awards in the event that the number of constituent companies drops below an acceptable level. The TSR condition is independently calculated and verified by the Committee in respect of each award that vests. The vesting of Matching Shares related to voluntary Deferred Shares will be determined solely with regard to the ROE performance condition.

For awards made in 2008 that vested in 2011, the ROE performance condition was partially met at a result of 13.8% and the relative TSR performance condition was achieved in full at 3.2%. A note of the shares that vested in relation to the Executive Directors is given on page 71.

As noted on page 59, the Committee agreed that Andy Haste would be considered a "good leaver" in accordance with the LTIP rules relating to the unvested share awards granted to him in 2009, 2010 and 2011. George Culmer's unvested share awards will lapse on the date his employment with the Company ends.

Sharesave

Executive Directors are able to participate in Sharesave (an HM Revenue & Customs approved Save as You Earn Plan), which the Group currently operates in 22 countries. Employees make monthly savings for a period of either three or five years and are granted an option to buy ordinary shares in the Company at the end of the savings period. The purchase price is set at the date employees are invited to join Sharesave and is discounted to the market value by 20%.

Details of the Executive Directors' interests in Sharesave are noted on page 70.

Sharebuild

Executive Directors are able to participate in Sharebuild (an HM Revenue & Customs approved Share Incentive Plan), which was adopted by shareholders at the 2009 AGM. Sharebuild is available to all UK based employees who are employed at 30 June each year. In 2011, one Matching Share was allotted and held in Trust for every one Partnership Share acquired with participants' contributions. Participants re-invest the dividends paid on their Plan Shares held at the relevant dividend record date in order to purchase further Shares in the Plan.

Details of the Executive Directors' interests in Sharebuild are noted on page 70.

Dilution

Dilution levels for all schemes are held strictly within the Association of British Insurers (ABI) limits. The dilution levels compared to ABI limits as at 31 December 2011 were:

ABI limit	RSA dilution %
10% over 10 years for all share schemes	6.93
5% over 10 years for discretionary schemes	4.24

Share ownership guidelines
Strengthened share ownership guidelines were introduced in 2004 for Executive Directors and members of the Executive Team.

The Group Chief Executive is required to maintain a minimum shareholding in the Company equivalent to 200% of base salary. The other Executive Directors have a target of 150% of base salary and other members of the Executive Team have a target of 75% of base salary. In order to ensure that progress is made towards this target, executives are required to retain shares to a value of 50% of the net of tax proceeds under all share schemes until the relevant guideline is attained.

The number of shares held by each Executive Director as at 31 December 2011 (excluding Voluntarily Invested Deferred Shares held under the LTIP and Matching Shares and Dividend Shares held under Sharebuild) is shown in the table on page 69.

Pension provision and other benefits
Andy Haste is a member of the SAL Pension Scheme (SAL), a contributory defined benefit occupational pension scheme. In 2010, the Group restructured the provision of defined benefit pensions for all UK based employees. From 1 March 2010, Andy Haste's benefit accrual was reduced from 1/60th to 1/80th and was calculated with reference to a capped salary of £75,000. Benefit accrued under the RSA Stakeholder Plan (a defined contribution plan) in respect of base salary from £75,000 up to an earnings cap (£129,600 for the tax year commencing 6 April 2011). Participation in the RSA Stakeholder Plan will generate employer contributions worth 15% of base salary, subject to an employee contribution of 5% of base salary. In addition to his benefits within SAL and the RSA Stakeholder Plan, Andy Haste received an age-related taxable cash allowance which enabled him to make his own provision for retirement above the cap. In 2011, he was paid an allowance of 38% of base salary for this purpose.

Andy Haste became a deferred member of the pension scheme following his employment ceasing on 31 December 2011.

George Culmer is a member of the RSA Stakeholder Plan. He receives employer contributions worth 15% of base salary, subject to an employee contribution of 5% of base salary up to the HM Revenue and Customs annual allowance as applicable. Additionally, George Culmer receives a taxable cash allowance of 15% of base salary.

Simon Lee elected not to join a Group pension plan on joining RSA, and receives a taxable cash allowance in lieu of employer contributions. His cash allowance rose from 17.5% of salary to 25% of salary upon his appointment as Group Chief Executive on 1 November 2011.

Adrian Brown is a member of the RSA Stakeholder Plan (a defined contribution plan), and he receives an employer contribution of 11% of salary, subject to the HM Revenue and Customs annual allowance, as applicable. He has elected not to make a contribution from his salary into the pension plan. Additionally, Adrian Brown receives a taxable cash allowance of 6.5% of base salary.

The Executive Directors receive a number of benefits available to other senior managers, including life assurance at the rate of four times base salary together with a spouse/dependant annuity, sickness and ill health early retirement benefits and private medical insurance. They also have a choice between a company car and a monthly cash allowance in lieu of a car.

Service contracts
The Committee's policy on service contracts is that they should be subject to a maximum notice period of one year. 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. The Company has the right to pay Executive Directors in lieu of all or part of their notice period. None of the Executive Directors have current terms in their service contracts which allow them additional rights or payment in the event of a reconstruction or amalgamation of the Group. Under normal circumstances, the service contract in respect of each Executive Director continues until age 65. These contracts may, however, be terminated earlier by the Company or the individual, by the serving of 12 months' notice.

The Executive Directors' service contracts became effective on the following dates:

Director	Effective date of contract	Notice period
Andy Haste	2 April 2003	12 months
George Culmer	1 May 2004	12 months
Simon Lee	1 November 2011	12 months
Adrian Brown	5 July 2011	12 months

External directorships

Where appropriate, the Group encourages Directors and other senior managers to accept, subject to the approval of the Chairman, an invitation to join the board of another company outside the Group in a non-executive capacity, recognising the value of such wider experience. In these circumstances, they are permitted to retain any remuneration from the non-executive appointment. Executive Directors and other members of the Executive Team are limited to accepting one external appointment.

Andy Haste is a Non-Executive Director of ITV plc. During the year he received a fee of £77,500 which he is permitted to retain. None of the other Executive Directors have been appointed to the board of another company outside the Group.

Non-Executive Directors

Under the Company's Articles, the remuneration paid to Non-Executive Directors is determined by the Board, within limits set by shareholders. The fees paid to the Non-Executive Directors were last adjusted in 2010 and are noted as follows for 2011. The fees will be reviewed during 2012 and any changes that may be agreed will be reported to shareholders in the 2012 Remuneration Report.

	£
Base fee	60,000
Plus:	
Chairman of Group Audit Committee	20,000
Chairman of Remuneration Committee	12,500
Chairman of Investment Committee	12,500
Chairman of Board Risk Committee	12,500
Additional fee for sitting on one or more Committees in a capacity other than Chairman	5,000

Non-Executive Directors are not entitled to receive bonus payments or pension arrangements, nor do they participate in the Group's long term incentive plans.

The Committee determines the Chairman of the Board's remuneration. For the second consecutive year, the Chairman requested that his fee was not increased, and therefore it remains at £400,000 per annum.

Non-Executive Directors do not have service contracts but each has a letter of appointment. With the exception of the Chairman, all Non-Executive Directors are subject to a three-year period which may be terminated by either party giving not less than one month's notice to the other.

Non-Executive Director	Effective date of letter of appointment	Expiry date of current 3-year period
Alastair Barbour	10 October 2011	10 October 2014
Edward Lea	10 July 2003	10 July 2012
John Maxwell	10 July 2003	10 July 2012
Noel Harwerth	30 March 2004	30 March 2013
Malcolm Le May	30 March 2004	30 March 2013
Jos Streppel	3 October 2011	3 October 2014
Johanna Waterous	20 May 2008	20 May 2014

John Napier's term of appointment as Chairman of the Board was most recently extended on 15 February 2011 so that it continues until terminated in accordance with his letter of appointment. The appointment may be terminated by either party giving not less than three months' notice to the other.

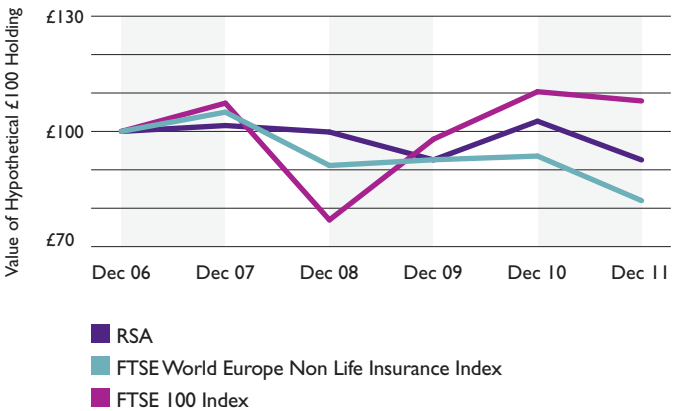
Historical TSR performance

The graph is included in the report of the Committee as a requirement of Schedule 8 to The Large and Medium-Sized Companies and Group (Accounts and Reports) Regulations 2008.

The graph shows the TSR of the Group with reference to the FTSE World Europe Non Life Insurance Index and the FTSE 100 Index. The FTSE World Europe Non Life Insurance Index comprises the range of European insurance businesses which most closely match our competitor group, and the TSR comparator group selected for awards under the LTIP. The FTSE 100 Index comprises the 100 most highly capitalised companies of the UK market. TSR performance relative to the indices is shown over the five years from 31 December 2006 to 31 December 2011. TSR reflects the change in value of ordinary shares in a company over time, as represented by the evolution of a notional initial investment of £100 in the shares and including any distribution of dividends.

Historical TSR performance growth in the value of a hypothetical £100 holding over five years

Based on spot values



DIRECTORS' EMOLUMENTS AND INTERESTS (AUDITED)

Directors' emoluments

Remuneration for the year ended 31 December 2011 was as follows:

	Base salary and fees £000	Allowances and benefits £000	Bonuses £000	Total[1] 2011 £000	Total 2010 £000
Executive Directors[2]					
Adrian Brown[3]	210	18	379	607	–
George Culmer[4]	557	146	–	703	1,153
Andy Haste[5]	956	932	883	2,771	2,182
Simon Lee[6]	538	122	489	1,149	935
Non-Executive Directors					
Alastair Barbour[7]	15	–	–	15	–
Noel Harwerth	78	–	–	78	66
Edward Lea	85	–	–	85	74
Malcolm Le May	78	–	–	78	66
John Maxwell	78	–	–	78	66
John Napier[8]	400	17	–	417	408
Jos Streppel[7]	16	–	–	16	–
Johanna Waterous	65	–	–	65	54

Notes:

1. The total figure includes all allowances chargeable to UK Income Tax.
2. 2011 bonuses were calculated in accordance with the plan described on page 62 of this Report and paid in March 2012. In 2011, a maximum cash bonus of 120% of salary was achievable.
3. Adrian Brown was appointed as a Director on 5 July 2011. Accordingly, the table above shows Adrian Brown's salary, allowances and benefits for the period from 5 July 2011 to 31 December 2011. The bonus shown is the total payment made in respect of his performance throughout 2011.
4. George Culmer's allowances include 15% of base salary as a retirement allowance, paid monthly. During 2011, the amount paid was £122k. He also received car benefits and additional taxable travel benefits worth £23k and medical benefits worth £1k.
5. Andy Haste's allowances include an age-related percentage of base salary as a retirement allowance, paid monthly. During 2011, the allowance was 38% of salary and the amount paid was £363k. He also received car benefits, additional taxable travel benefits worth £54k and medical and life assurance benefits worth £15k. A taxable payment of £500k was made to him in compensation of the unexpired period of his notice and other contractual benefits.
6. Simon Lee's allowances include 25% of basic salary as a retirement allowance, paid monthly. During 2011, the amount paid to him was £104k. He also received car benefits and additional taxable travel benefits worth £17k and medical benefits worth £1k.
7. The fees paid to Alastair Barbour and Jos Streppel are in respect of the period from their appointment as directors on 10 October 2011 and 3 October 2011 respectively until 31 December 2011.
8. John Napier is entitled to receive an accommodation allowance of £33k (gross) per annum.

The information required by paragraph 1, schedule 5 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 is shown in note 32 of the Financial Statements.

Pension benefits

Non-Executive Directors are not entitled to any pension benefits. The pension benefits earned by the Executive Directors, as members of Group defined benefit schemes, were as follows:

	Change in accrued pension in year[3] £	Total accrued pension at 31 December 2011[3] £	Transfer value of total accrued pension at 31 December 2011[7] £	Transfer value of total accrued pension at 31 December 2010 £	Difference in transfer values less member contribution[1] £
Andy Haste[2,4,5,6]	1,479	16,123	349,966	280,255	65,398

Notes:

1. The difference in transfer values reflects the difference between the two transfer values calculated using relevant information on the respective dates and is not necessarily the actuarial increase of the underlying pension.
2. The figures set out in the table above provide information as required by Regulation 11 and Schedule 8 to the Large and Medium-Sized Companies and Group (Accounts and Reports) Regulations 2008. The Listing Rules require the change in accrued pension to be shown excluding the effects of inflation and the transfer value of this increase. These figures are shown in the notes below.
3. The accrued pension figures shown are the annual amounts of member's pension payable from normal retirement age. Increases to pensions when in payment are applied in accordance with the relevant scheme rules. On the death of the member leaving a surviving spouse and/or children, spouse's and/or children's pensions are payable in accordance with scheme rules.
4. The benefits shown above in respect of Andy Haste relate to his membership of a defined benefit pension scheme up to the earnings cap for benefits accrued prior to 28 February 2010, and up to a cap of £75k for benefits accrued from 1 March 2010. Andy Haste was a member of the defined contribution scheme for benefits between £75k and the earnings cap for the period from 1 March 2010.
5. For Andy Haste the increase in his accrued pension during the year, excluding the effects of inflation, was £1k p.a and the transfer value in respect of this less his contributions was £16k at 31 December 2011.
6. Andy Haste is required to contribute to the scheme and also has the option of paying Additional Voluntary Contributions (AVCs). Neither voluntary contributions nor the resulting benefits are included in the table.
7. The transfer value of the accrued benefits represents the value of assets that the pension scheme would need to transfer to another pension provider on transferring the scheme's liability in respect of Andy Haste's pension benefits. The transfer values do not represent sums payable or due to Andy Haste.

The Company contributions paid in respect of Executive Directors who are members of Group defined contribution schemes, were as follows:

	Company contributions paid in 2011 £	Company contributions paid in 2010 £
Adrian Brown[1]	23,141	–
George Culmer	44,520	83,475
Andy Haste	7,959	6,053

Notes:

1. The contributions disclosed in the table above relate to the period from 5 July 2011 (when Mr Brown was appointed as a Director) to 31 December 2011.

Shareholdings

The interests of Directors in ordinary shares of 27.5p each of the Company were as follows:

Director	Shares held at 1 January 2011	Shares held at 31 December 2011	Shares held as a percentage of salary as at 31 December 2011[3]
Executive Directors[1,2]			
Adrian Brown[4]	431,901	505,149	150
George Culmer	1,329,849	1,847,317	392
Andy Haste	5,116,211	6,047,908	709
Simon Lee	759,608	1,016,664	158
Non-Executive Directors[2]			
Alastair Barbour	–	20,000	–
Noel Harwerth	10,000	10,000	–
Edward Lea	591,187	703,521	–
Malcolm Le May	18,765	20,107	–
John Maxwell	358,770	522,977	–
John Napier	560,671	600,821	–
Jos Streppel	–	–	–
Johanna Waterous	36,761	36,761	–

Notes:

1. The Executive Directors each had a beneficial interest as at 31 December 2011 in the Voluntarily Invested Deferred Shares of 27.5p each held under the LTIP and in the Matching Shares under Sharebuild which are not included in the above table. These are disclosed on pages 70 and 71.
2. As at 22 February 2012, the interests in ordinary shares of the Non-Executive Directors remained unchanged since 31 December 2011.
3. Assuming share price of 1.052p (the closing middle market price on the last dealing day of the year) and including Voluntarily Invested Deferred Shares of 27.5p each held under the LTIP and in the Matching Shares under Sharebuild which are disclosed on pages 70 and 71.
4. Adrian Brown was appointed as a Director on 5 July 2011. Accordingly, the table above shows shares held by him on 5 July 2011 and not 1 January 2011.
5. Jos Streppel was appointed to the Board on 3 October 2011 and Alastair Barbour was appointed to the Board on 10 October 2011. Accordingly, the table above shows shares held by them on the date of their respective appointments and not 1 January 2011.

Options

1999 ESOS

The 1999 ESOS is an executive share option scheme under which options were granted with an exercise price equal to the fair value of the shares at the date of grant. Any outstanding options expire ten years from the date of grant. No grants have been made under the 1999 ESOS since 2006 and the 1999 ESOS expired in 2009 although a number of options remain outstanding in accordance with the rules of the scheme. The relevant performance conditions were achieved in respect of all options granted between those dates.

Outstanding options – ESOS and Sharesave

None of the terms or conditions of any of the existing options over shares of the Group were varied during the year. 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.

The official closing middle market price at its highest during the year was 143.5p per share and at its lowest was 99.6p per share. On the last dealing day of the year it was 105.2p per share.

Unexpired options held during 2011 in respect of the ordinary shares of the Company as a result of executive and Sharesave share option schemes are shown below. All options were granted for nil consideration.

Director and Scheme	Number of options at 1 January 2011	Options granted during the year	Options exercised during the year	Market price (pence) on date of Exercise[2]	Options cancelled during the year	Number of options at 31 December 2011	Exercise price (pence)	Dates exercisable from	Dates exercisable to
Adrian Brown									
1999 ESOS	84,658				46,235	38,423	234.2	11.03.05	10.03.12
Sharesave	5,096					5,096	117.0	01.12.13	31.05.14
Sharesave	6.091					6.091	97.0	01.12.14	31.05.15
Sharesave	4,078					4,078	100.0	01.12.15	31.05.16
George Culmer									
1999 ESOS	481,012					481,012	79.0	14.06.07	13.06.14
1999 ESOS	500,000					500,000	76.0	18.11.07	17.11.14
1999 ESOS	787,500					787,500	80.0	08.04.08	07.04.15
1999 ESOS	225,806					225,806	93.0	18.08.08	17.08.15
Sharesave	16,030					16,030	97.0	01.12.14	31.05.15
Andy Haste									
Sharesave	4,488					4,488	97.0	01.12.14	31.05.15
Simon Lee									
1999 ESOS	206,049					206,049	114.1	04.06.06	03.06.13
1999 ESOS	125,000					125,000	92.4	16.10.06	15.10.13
1999 ESOS	161,392					161,392	79.0	14.06.07	13.06.14
1999 ESOS	167,763					167,763	76.0	18.11.07	17.11.14
1999 ESOS	525,937					525,937	80.0	08.04.08	07.04.15
1999 ESOS	169,355					169,355	93.0	18.08.08	17.08.15
Sharesave	7,298		7,298	141.80		–	75.0	01.12.10	31.05.11
Sharesave	2,297					2,297	117.0	01.12.11	31.05.12
Sharesave	3,555					3,555	97.0	01.12.12	31.05.13
Sharesave	3,060					3,060	100.0	01.12.13	31.05.14
Sharesave	–	2,652				2,652	95.0	01.12.14	31.05.15

Notes
1. Adrian Brown was appointed as a Director on 5 July 2011. Accordingly, the table above shows the number of options held by him on that date and not 1 January 2011.
2. The aggregate gain made by Directors during the year on the exercise of share options amounted to £486.00.

Sharebuild

The Directors' interests in Sharebuild shares were as follows:

	Sharebuild Shares held at 1 January 2011	Partnership Shares acquired during the year	Matching Shares awarded during the year	Dividend Shares acquired during the year	Sharebuild Shares held at 31 December 2011
Adrian Brown[1, 2]	3,895	650	650	139	5,334
George Culmer[2]	2,667	1,201	1,201	265	5,334
Andy Haste	2,667	1,202	1,202	265	5,336
Simon Lee[2]	2,667	1,201	1,201	265	5,334

Notes
1. Adrian Brown was appointed as a Director on 5 July 2011. Accordingly, the table above shows the share awards held by Adrian Brown on 5 July 2011 and not 1 January 2011 and Partnership Shares and Matching Shares purchased since 5 July 2011.
2. The interests of Adrian Brown, George Culmer and Simon Lee each increased by 232 ordinary shares on 9 January 2012 and a further 220 ordinary shares on 7 February 2012 following the purchase of Partnership Shares and the awards of Matching Shares on those dates.

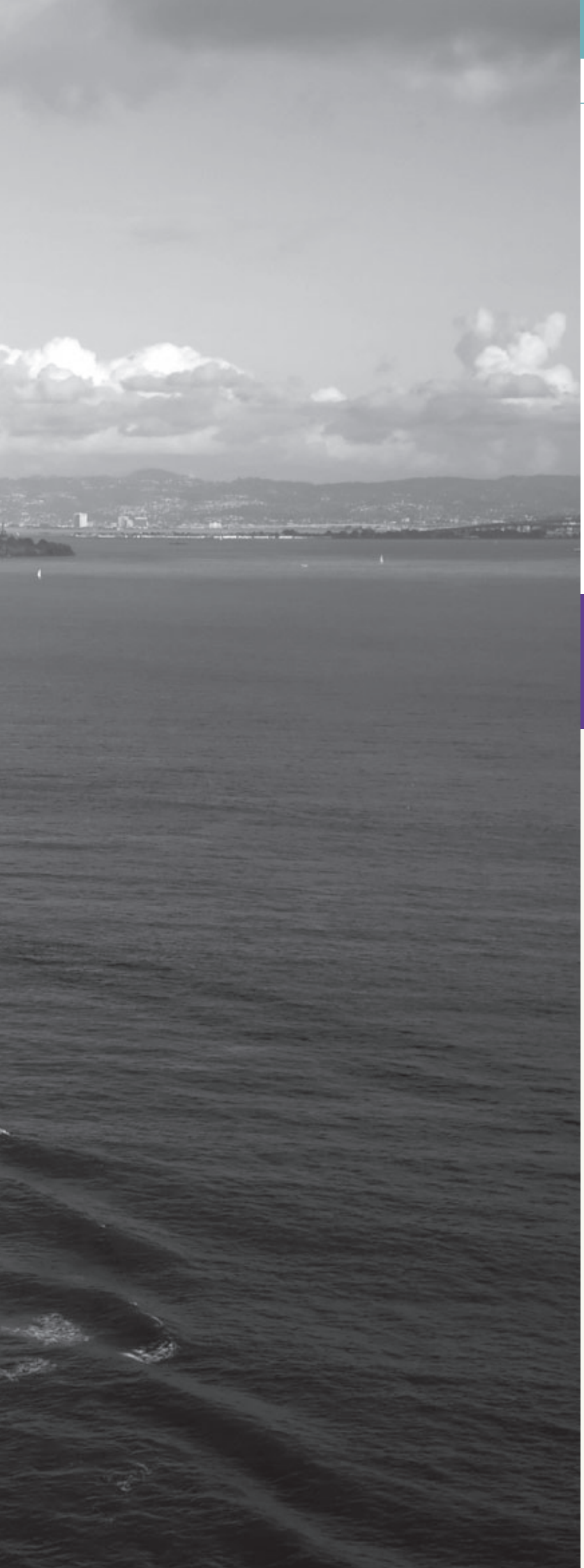
Long Term Incentive Plan

	Share awards held at 1 January 2011[8]	Share awards granted during the year	Share awards vested during the year[6, 7]	Share awards lapsed during the year	Share awards held at 31 December 2011
Adrian Brown[8]					
Deferred Shares[1,2,5]	357,286	–	–	–	357,286
Matching Shares[3,5]	1,094,108	–	–	–	1,094,108
Performance Shares[4,5]	1,445,396	–	154,698	55,062	1,235,636
George Culmer					
Deferred Shares[1,2,5]	698,127	241,006	172,481	–	766,652
Matching Shares[3,5]	2,146,542	755,395	329,172	216,802	2,355,963
Performance Shares[4,5]	1,630,102	627,160	258,507	92,011	1,906,744
Andy Haste					
Deferred Shares[1,2,5]	1,209,467	413,803	307,233	–	1,316,037
Matching Shares[3,5]	3,719,800	1,296,998	586,342	386,179	4,044,277
Performance Shares[4,5]	2,820,799	1,076,821	460,466	163,895	3,273,259
Simon Lee					
Deferred Shares[1,2,5]	553,050	197,170	137,660	–	612,560
Matching Shares[3,5]	1,699,358	617,996	262,718	173,033	1,881,603
Performance Shares[4,5]	1,175,301	402,329	199,804	71,117	1,306,709

Notes:

1. The market price of ordinary shares on 7 April 2011, the date on which long term incentive scheme interests were granted during the year, was 134.1p.
2. Deferred Shares are inclusive of Voluntarily Invested Deferred Shares and compulsory Deferred Shares. Voluntarily Invested Deferred Shares are 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 the related Matching Share awards would lapse if the voluntary Deferred Shares are withdrawn within three years of acquisition. Compulsory Deferred Share awards are granted as part of the annual bonus. These Deferred Shares will normally vest in three years from the date of grant subject to continuous employment with the Group.
3. Matching Shares are capable of vesting in respect of a maximum of 2.5 times the number of Deferred Shares awarded, subject to the achievement of performance conditions over a three year period. For grants awarded in 2009 and 2010, 30% of the Matching Shares relating to compulsory Deferred Shares are subject to TSR performance relative to other companies specified by the Remuneration Committee. For grants awarded in 2008, 50% of the Matching Shares relating to compulsory Deferred Shares are subject to TSR performance relative to other companies specified by the Remuneration Committee and for awards granted in 2009, 2010 and 2011, this was 30%. Full vesting will only occur at upper quintile performance; at median performance 25% of the Matching Shares will vest. Vesting will be on a straight line basis in between. The remaining balance of the Matching Shares relating to compulsory Deferred Shares (and all of the Matching Shares relating to voluntary Deferred Shares) are subject to a ROE performance condition. If underlying ROE over three years commencing in the year of grant is below 10% (12% for awards granted in 2008), no part of the award subject to ROE performance will vest. If underlying ROE over three years is 10% (12% for awards granted in 2008), 25% of the award will vest. If underlying average annual ROE over three years is 16% or higher (18% for awards granted in 2008), 100% of the awards will vest. Vesting will be on a straight line basis in between. For the purpose of establishing the number of Matching Shares relating to voluntary Deferred Shares that may be awarded, the gross value of that part of the annual bonus payment that a participant elects to voluntarily defer is used.
4. Performance conditions relating to awards of Performance Shares are the same as those relating to compulsory Deferred Matching Shares for the relevant year of grant as described above.
5. The date by which qualifying conditions for LTIP awards must be met is as follows: 2009 awards by 31 December 2011, 2010 awards by 31 December 2012, 2011 awards by 31 December 2013.
6. In respect of the awards made to George Culmer, Andy Haste and Simon Lee, the market price on the date of grant of awards (9 April 2008) was 135.7p, the market price on date of vesting of awards (9 April 2011) was 134.8p. In respect of the award made to Adrian Brown, the market price on the date of grant of awards (22 August 2008) was 146.8p and the market price on the date the award vested (22 August 2011) was 113.0p. For awards made in 2008, the ROE performance condition was partially met at a result of 13.8% and the relative TSR performance condition was achieved in full at 3.2%.
7. The aggregate value of share awards vested for Directors during the year under the long term incentive plan amounted to £3.8m. Voluntarily Invested Deferred Shares which are shown in the table above are not included in this value.
8. Adrian Brown was appointed as a Director on 5 July 2011. Accordingly, the table above shows the share awards held by him on 5 July 2011 and not 1 January 2011. The table also shows his share awards that have vested and lapsed since 5 July 2011.
9. No other Directors of the Company held long term incentive scheme interests during 2011.

John Maxwell
Chairman of the Remuneration Committee, on behalf of the Board
22 February 2012



FINANCIAL STATEMENTS

MARINE

OUR MARINE BUSINESS WAS THE FOUNDATION OF THE RSA WE KNOW TODAY.

From financing maritime traders in the early 18th century to underwriting the emerging marine risks of the 21st century, RSA has been at the forefront of driving innovative insurance solutions for this diverse and evolving sector, where we offer a broad range of covers for our customer including

- Hull
- Cargo – Covering the transportation of goods
- Transportation – Covering individuals and businesses responsible for carrying, handling or storing cargo
- Aquaculture – Specialist cover for the production of fish, shellfish and shrimp
- Yachts – Covering pleasure crafts of all shapes and sizes from small personal watercraft to ocean going yachts.

The Marine team comprises both technical insurance experts and people who have worked within the marine industry for many years, providing a unique blend of industry experience and product expertise. This combination enables us to deliver the best solutions for our customers.

With over 700 people in the Marine team, we have built up a strong presence and excellent reputation in all of the key marine insurance markets, including the UK, Canada, Scandinavia, Brazil, Chile and Singapore, and our Marine business continues to be a strong and stable growth driver for the Group.

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 European Union 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 Company and of the profit or loss of the Company 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 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 Company's transactions and disclose with reasonable accuracy at any time the financial position of the 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 Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 76 to 141, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group
- The business review on pages 3 to 37, 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 30 to 33, 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

Simon Lee
Group Chief Executive Officer
22 February 2012

George Culmer
Chief Financial Officer
22 February 2012

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RSA INSURANCE GROUP PLC

We have audited the consolidated financial statements of RSA Insurance Group plc for the year ended 31 December 2011 which comprise the consolidated Income Statement, the consolidated Statement of Comprehensive Income, the consolidated Statement of Changes in Equity, the consolidated Statement of Financial Position, the consolidated Statement of Cashflows and the related notes on pages 76 to 141. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

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

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the consolidated financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the consolidated financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the consolidated financial statements:

- Give a true and fair view of the state of the Group's affairs as at 31 December 2011 and of its profit for the year then ended
- Have been properly prepared in accordance with IFRS as adopted by the European Union and
- Have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

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 Directors' Report for the financial year for which the financial statements are prepared is consistent with the Group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

- 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, contained within the Directors' Report, in relation to going concern
- The part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review and
- Certain elements of the report to shareholders by the Board on Directors' remuneration.

Other matters

We have reported separately on the Parent Company financial statements of RSA Insurance Group plc for the year ended 31 December 2011 and on the information in the Directors' Remuneration Report that is described as having been audited.

Graham Richardson (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK
22 February 2012

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2011

	Notes	2011 £m	2010 £m
Income			
Gross written premiums		**9,131**	8,448
Less: reinsurance premiums		**(993)**	(993)
Net written premiums	1	**8,138**	7,455
Change in the gross provision for unearned premiums		**(273)**	(250)
Less: change in provision for unearned premiums, reinsurers' share		**(9)**	(26)
Change in provision for unearned premiums		**(282)**	(276)
Net earned premiums		**7,856**	7,179
Net investment return	2	**745**	629
Other operating income	4	**134**	116
Total income		**8,735**	7,924
Expenses			
Gross claims incurred		**(5,595)**	(6,700)
Less: claims recoveries from reinsurers		**382**	1,816
Net claims and benefits	3	**(5,213)**	(4,884)
Underwriting and policy acquisition costs		**(2,399)**	(2,171)
Unwind of discount		**(94)**	(94)
Other operating expenses	4	**(291)**	(177)
Total expenses		**(7,997)**	(7,326)
Finance costs	4	**(117)**	(118)
Gains/(losses) on disposal of subsidiaries	30	**1**	(1)
Net share of loss after tax of associates	11	**(9)**	(5)
Profit before tax	1	**613**	474
Income tax expense	5	**(186)**	(119)
Profit for the year		**427**	355
Attributable to:			
Equity holders of the Parent Company		**426**	346
Non controlling interests		**1**	9
		427	355
Earnings per share on profit attributable to the ordinary shareholders of the Parent Company			
Basic	6	**11.9p**	9.8p
Diluted	6	**11.8p**	9.7p
Ordinary dividends paid and proposed for the year			
Interim dividend paid (per share)	7	**3.34p**	3.12p
Final dividend proposed (per share)	7	**5.82p**	5.70p

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2011

	Notes	2011 £m	2010 £m
Profit for the year		**427**	355
Exchange (losses)/gains net of tax	17	**(70)**	53
Fair value gains net of tax	17	**26**	46
Pension fund actuarial (losses)/gains net of tax	17	**(63)**	58
Other comprehensive (expense)/income for the year		**(107)**	157
Total comprehensive income for the year		**320**	512
Attributable to:			
Equity holders of the Parent Company		**318**	502
Non controlling interests		**2**	10
		320	512

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2011

	Ordinary share capital £m	Ordinary share premium £m	Treasury shares £m	Preference shares £m	Revaluation reserves £m	Capital redemption reserve £m	Translation reserve £m	Retained earnings £m	Share-holders' equity £m	Non controlling interests £m	Total equity £m
Balance at 1 January 2010	941	1,074	(3)	125	377	8	259	710	3,491	97	3,588
Total comprehensive income for the year (note 17)	–	–	–	–	58	–	40	404	502	10	512
Dividends – paid (note 7)	–	–	–	–	–	–	–	(299)	(299)	(4)	(303)
Issued by scrip	11	41	–	–	–	–	–	–	52	–	52
Issued for cash (note 18)	6	9	–	–	–	–	–	–	15	12	27
Issued for non cash consideration	–	–	–	–	–	–	–	–	–	11	11
Treasury shares utilised	–	–	1	–	–	–	–	(1)	–	–	–
Changes in shareholders' interests in subsidiaries	–	–	–	–	–	–	–	(24)	(24)	3	(21)
Depreciation transfer	–	–	–	–	(2)	–	–	2	–	–	–
Share based payments	4	–	–	–	–	–	–	25	29	–	29
Balance at 1 January 2011	962	1,124	(2)	125	433	8	299	817	3,766	129	3,895
Total comprehensive income/ (expense) for the year (note 17)	**–**	**–**	**–**	**–**	**21**	**–**	**(56)**	**353**	**318**	**2**	**320**
Dividends – paid (note 7)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(325)**	**(325)**	**(18)**	**(343)**
Issued by scrip	**5**	**17**	**–**	**–**	**–**	**–**	**–**	**–**	**22**	**–**	**22**
Issued for cash (note 18)	**1**	**3**	**–**	**–**	**–**	**–**	**–**	**–**	**4**	**–**	**4**
Treasury shares utilised	**–**	**–**	**1**	**–**	**–**	**–**	**–**	**2**	**3**	**–**	**3**
Changes in shareholders' interests in subsidiaries	**–**	**–**	**–**	**–**	**1**	**–**	**–**	**3**	**4**	**1**	**5**
Depreciation transfer	**–**	**–**	**–**	**–**	**(1)**	**–**	**–**	**1**	**–**	**–**	**–**
Share based payments	**3**	**–**	**–**	**–**	**–**	**–**	**–**	**6**	**9**	**–**	**9**
Balance at 31 December 2011	**971**	**1,144**	**(1)**	**125**	**454**	**8**	**243**	**857**	**3,801**	**114**	**3,915**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2011

	Notes	2011 £m	2010 £m
Assets			
Goodwill and other intangible assets	8	**1,359**	1,209
Property and equipment	9	**275**	287
Investment property	10	**362**	374
Investments in associates	11	**29**	38
Financial assets	12	**12,838**	13,098
Total investments		**13,229**	13,510
Reinsurers' share of insurance contract liabilities	13	**2,073**	2,652
Insurance and reinsurance debtors	14	**3,328**	3,137
Current tax assets	23	**33**	33
Deferred tax assets	23	**249**	204
Other debtors and other assets	15	**777**	744
		1,059	981
Cash and cash equivalents	16	**1,258**	1,317
		22,581	23,093
Assets held for sale	34	**17**	11
Total assets		**22,598**	23,104
Equity and liabilities			
Equity			
Shareholders' equity		**3,801**	3,766
Non controlling interests		**114**	129
Total equity		**3,915**	3,895
Liabilities			
Loan capital	19	**1,313**	1,315
Insurance contract liabilities	20	**14,766**	15,140
Insurance and reinsurance liabilities	21	**602**	656
Borrowings	22	**298**	298
Current tax liabilities	23	**104**	158
Deferred tax liabilities	23	**102**	42
Provisions	24	**389**	389
Other liabilities	25	**1,109**	1,211
Provisions and other liabilities		**1,704**	1,800
Total liabilities		**18,683**	19,209
Total equity and liabilities		**22,598**	23,104

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

The financial statements were approved on 22 February 2012 by the Board of Directors and are signed on its behalf by:

George Culmer
Chief Financial Officer

CONSOLIDATED STATEMENT OF CASHFLOWS

for the year ended 31 December 2011

	Notes	2011 £m	2010 £m
Cashflows from operations	31	**104**	96
Tax paid		**(227)**	(215)
Investment income		**597**	578
Interest paid		**(116)**	(115)
Dividends received from associates		**1**	2
Pension deficit funding		**(56)**	(50)
Net cashflows from operating activities		**303**	296
Proceeds from sales or maturities of:			
Financial assets		**4,432**	4,120
Investment property		**11**	78
Property and equipment		**14**	–
Investments in subsidiaries (net of cash disposed of)	30	**6**	(74)
Purchase of:			
Financial assets		**(3,983)**	(3,720)
Investment property		**(3)**	(39)
Property and equipment		**(37)**	(31)
Intangible assets		**(159)**	(133)
Investments in subsidiaries (net of cash acquired)	30	**(299)**	(86)
Net cashflows from investing activities		**(18)**	115
Proceeds from issue of share capital		**4**	27
Dividends paid to ordinary shareholders		**(294)**	(237)
Dividends paid to preference shareholders		**(9)**	(9)
Dividends paid to non controlling interests		**(18)**	(2)
Net movement in other borrowings		**1**	(1)
Net cashflows from financing activities		**(316)**	(222)
Net (decrease)/increase in cash and cash equivalents		**(31)**	189
Cash and cash equivalents at beginning of the year		**1,314**	1,105
Effect of exchange rate changes on cash and cash equivalents		**(25)**	20
Cash and cash equivalents at end of the year	16	**1,258**	1,314

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 and financial assets and financial liabilities held for trading (which include all derivative contracts).

There are no new IFRS and interpretations of IFRS that have become effective during 2011 and that have a significant impact on the Group accounting policies. There are no significant other changes to Group accounting policies during 2011.

Except where otherwise stated, all figures included in the consolidated financial statements are presented in millions of Pounds Sterling, being the currency in the primary economic environment of the company, shown as '£m', rounded to the nearest million.

Selection of accounting policies

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. For certain accounting policies there are different accounting treatments that could be adopted, each of which would be in compliance with IFRS and would have a significant influence upon the basis on which the financial statements are presented. The bases of selection of the accounting policies for the accounting for financial assets and for the recognition of actuarial gains and losses related to pension obligations are set out below:

- The Group designates financial assets that are held as investments 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 with unrealised gains recognised in the statement of comprehensive income. 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 income statement
- The Group accounting policy is to recognise actuarial gains and losses arising from the recognition and funding of the Group's pension obligations in the statement of comprehensive income during the period in which they arise. This policy has been adopted as it provides the most relevant basis of recognition of such gains and losses.

Consolidation

Subsidiaries

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. 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.

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 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 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' post acquisition profits or losses are recognised in the income statement and its share of post acquisition movements in reserves is recognised in the 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 taken to equity. When a foreign entity is sold, the cumulative exchange differences relating to that foreign entity are recognised in the 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 income statement.

Goodwill and other intangible assets

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 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 or other intangible assets are impaired. Where the carrying amount is more than the recoverable amount, an impairment is recognised in the income statement.

The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. An impairment loss recognised for goodwill is not reversed in a subsequent period.

When calculating the goodwill arising on an acquisition, provisions for losses and loss adjustment expenses are discounted to present value. Immediately following the acquisition, the provisions for losses and loss adjustment expenses are valued at full nominal value. This increase in 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 in within the liability adequacy test of insurance contract liabilities where the balances of intangible assets associated with insurance contracts is deducted from the carrying amount of the insurance contract liabilities. The run off period is normally between five and 11 years.

Expenditure that increases the future economic benefits arising from computer software in excess of its standard of performance assessed immediately before the expenditure was made is recognised as an intangible asset.

Other intangible assets comprise renewal rights, customer lists, brands and other acquired identifiable non monetary assets without physical form.

Computer software and other intangible assets are carried at cost less accumulated amortisation. 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 three and 12 years.

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 assets are stated at depreciated cost. Fair value movements are recorded in equity.

Fair value is based on current prices in an active market for similar property in the same location and condition and subject to similar contractual terms of ownership. Valuations are performed by external professionally qualified valuation surveyors on at least an annual basis, with reference to current market conditions.

All other classes are stated at cost less accumulated depreciation. 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.

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 assets' 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 equity. Decreases that offset the previous increases of the same asset are charged against revaluation surplus directly in equity; other decreases are charged to the income statement. Each year the difference between depreciation based on the fair value of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from revaluation surplus 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 thereof 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 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 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 not classified on initial recognition as available for sale assets and are therefore categorised as loans and receivables.

Where the cumulative changes recognised in equity represent an unrealised 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 unrealised loss charged to equity is reclassified to the 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 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 income statement to reduce the carrying value of the financial asset to its recoverable amount.

Investment income is recognised in the 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 directly in equity, except for impairment losses and foreign exchange gains and losses on monetary items (which are recognised in the income statement). On derecognition of an investment classified as available for sale, the cumulative gain or loss previously recognised in equity is recognised in the income statement.

Derivative financial instruments

Derivatives are recognised in the 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 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
- For cashflow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cashflows that could ultimately affect profit or loss
- The hedge is assessed on an ongoing basis and determined to have been highly effective.

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 equity; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are included in the income statement when the underlying hedged item is derecognised.

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 shown 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 generally based upon quoted 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 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 and duties levied on premiums and directly related expenses, e.g. commissions. 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 premiums. Deferred acquisition costs are amortised on the same basis as the related 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, Canada 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 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 from the end of the reporting period 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, 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 an assessment is made of whether the provisions for unearned premiums are adequate. A separate provision is made, based on information available at the end of the reporting period, for any estimated future underwriting losses relating to unexpired risks. The provision is calculated after taking into account future investment income that is expected to be earned from the assets backing the provisions for unearned premiums (net of deferred acquisition costs). 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 income statement at the date of purchase.

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 comprise financial assets with less than three months' maturity from the date of acquisition.

Treasury shares

Treasury shares are deducted from equity. No gain or loss is recognised on the purchase, sale, issue or cancellation of the treasury 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.

An exchange with an existing lender of loan capital with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cashflows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cashflows of the original financial liability. An exchange where the terms are not substantially different is accounted for as an exchange.

If an exchange of loan capital or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If it is accounted for as an exchange, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability and no adjustment is made to the carrying value of the liability to reflect its fair value at the date of exchange.

Taxation

Taxation in the 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. UK tax in respect 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 UK tax is based on 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 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 substantially 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 these temporary differences can be utilised.

Employee benefits

Pension obligations

Group companies operate various pension schemes. The schemes are generally funded through payments to trustee administered funds, determined by periodic actuarial calculations. 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 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 amounts charged (or credited where relevant) in the income statement relating to post retirement benefits in respect of defined benefit schemes are as follows:

- The current service cost
- The past service cost for additional benefits granted in the current or earlier periods
- The interest cost for the period
- The impact of any curtailments or settlements during the period
- The expected return on scheme assets (where relevant).

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.

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.

Past service costs arise where additional benefits are granted. The cost of providing additional benefits is recognised on a straight line basis over the remaining period of service until such benefits vest. The cost of providing additional benefits that vest on their introduction are recognised immediately.

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. The interest cost for the period is calculated by multiplying the discount rate determined at the start of the period by the defined benefit obligations during the period.

The change in the present value of the defined benefit obligations and the changes in the fair value of scheme assets resulting from any curtailments and settlements of scheme liabilities during the period are recognised in the income statement.

Additionally, any previously unrecognised past service costs related to these liabilities are recognised in the gains or losses on settlement and curtailment.

The expected returns on scheme assets are determined for each asset class, at the beginning of the period, as the expected investment returns on scheme assets over the entire life of the related obligations. All returns are net of investment expenses.

Actuarial gains and losses arise from changes to actuarial assumptions when revaluing future benefits and from actual experience in respect of scheme liabilities and investment performance of scheme assets being different from previous assumptions. Actuarial gains and losses are recognised in the statement of comprehensive income.

The value recognised in the 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 any past service cost not yet recognised
- 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.

For those individual schemes in deficit, the resulting net liabilities are recognised in the statement of financial position in provisions. For those individual schemes in surplus, an asset is recognised in the 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.

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 when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

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. The value of liabilities in respect of cash settled share based payment transactions is based upon the fair value of the awards at the end of the reporting period.

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, 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. The interim dividend is recognised when paid.

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 are identified on the basis of the regional structure of the Group. Internal reports about these segments are regularly reviewed by the Board of Directors (determined to be the chief operating decision maker) to assess their performance and to allocate capital and resources.

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, that is highly probable to complete within one year from the date of classification, rather than through continuing use. 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 statement of financial position for the comparative prior period presented is not restated.

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 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 financial statements contain amounts attributable to continuing operations only. The comparatives for the notes to the 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 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 and 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) but which are not yet mandatory for adoption and have yet to be adopted in the Group financial statements are listed below:

In November 2009 the IASB issued IFRS 9 'Financial Instruments'. This standard represents the completion of the first part of a larger project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. The new standard reduces the complexity by replacing the many different rules in IAS 39. The key features for the new standard are as follows:

- The option in IAS 39 allowing entities to classify financial instruments as available for sale is not available in IFRS 9
- A business model test is applied first in determining whether a financial asset is eligible for amortised cost measurement. The business model test objective is based on holding financial assets in order to collect contractual cashflows rather than realising cashflows from the sale of the financial assets
- In order to be eligible for amortised cost measurement an asset must have contractual cashflow characteristics representing principal and interest
- All other financial assets are measured at fair value in the statement of financial position. Subject to an optional treatment for an equity investment, changes in fair value during the reporting period are recognised in the income statement
- An entity can elect on initial recognition to present the fair value changes on an equity investment that is not held for trading directly in other comprehensive income. The dividends on such investments must be recognised in the income statement but gains or losses are not recycled when the equity investment is derecognised
- If a financial asset is eligible for amortised cost measurement, an entity can elect to measure it at fair value if it eliminates or significantly reduces an accounting mismatch.

In October 2010 the requirements for classifying and measuring financial liabilities were added to IFRS 9. The majority of the requirements were carried forward unchanged from IAS 39. However, the requirements related to the fair value option for financial liabilities were changed to address the issue of own credit risk in order that the effects of changes in a liability's credit risk ought not to affect profit or loss unless the liability is held for trading.

It is expected that the IASB will issue the new standard covering the remaining parts of the project during 2012.

In December 2011 the IASB issued 'Mandatory Effective Date of IFRS 9 and Transition Disclosures', which amends IFRS 9 to require application for annual periods beginning on or after 1 January 2015, rather than 1 January 2013. The new standard has not yet been adopted by the EU.

IFRS 9 relies on the Group business model objective and may also be influenced by the basis of the measurement of the Group's insurance contract liabilities at the time that the new standard is adopted. The latter may change prior to adoption of IFRS 9 and so it is not possible to determine the overall impact on the results and the earnings per share of the current period, the comparative period or earlier periods, and on the Group's financial position at the end of each such period. It is not possible to assess the impact the changes will have on future periods as in addition to the factors above, these will be impacted by future market conditions and management actions.

In May 2011 the IASB issued four new standards, IFRS 10 'Consolidated Financial Statements', IFRS 11 'Joint Arrangements', IFRS 12 'Disclosure of Interests in Other Entities' and IFRS 13 'Fair Value Measurement'. IFRS 10, 11 and 12 represent the completion of the improvements to the accounting requirements for off balance sheet activities and joint arrangements. The IASB also issued a revised standard, IAS 27 'Separate Financial Statements' to cover the existing topics that are not contained in the new standards.

The key features of the new standards are as follows:

- IFRS 10 includes a new definition of control, which is used to determine which entities are consolidated. Therefore IFRS 10 may change which entities are within a group
- IFRS 11 addresses only two forms of joint arrangements (joint operations and joint ventures) where there is joint control. Because IFRS 11 uses the principle of control in IFRS 10 to define joint control, the determination of whether joint control exists may change
- IFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method
- IFRS 12 includes all of the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities. It introduces a number of new disclosures including the judgements made to determine whether one entity controls another entity and also providing more information about unconsolidated entities
- IFRS 13 defines fair value and sets out, in a single IFRS framework, the measurement of fair value and required disclosures.

IFRS 10, 11, 12 and the revised IAS 27 come into effect for annual periods beginning on or after 1 January 2013, but early adoption is permitted. The four standards must be adopted together with the exception of IFRS 12 which may be adopted earlier. They must be applied on a modified retrospective basis. These new standards have not yet been endorsed by the EU.

IFRS 13 comes into effect for annual periods beginning on or after 1 January 2013, but early adoption is permitted. It will be applied prospectively. This new standard has not yet been endorsed by the EU.

In June 2011 the IASB issued a revised version of IAS 19 'Employee Benefits'. The revisions include the following changes to the Group's existing accounting policies:

- Expected returns on plan assets will no longer be recognised in profit or loss. Expected returns are replaced by recording interest income in profit or loss, which is calculated using the discount rate used to measure the pension obligation
- Unvested past service costs are no longer deferred and recognised over the future vesting period. Instead, all past service costs will be recognised at the earlier of when the amendment / curtailment occurs or when the entity recognises related restructuring or termination costs.

This revised version of IAS 19 will come into effect for annual periods beginning on or after 1 January 2013, with retrospective application required. The revised standard has not yet been endorsed by the EU. When adopted, these changes are not expected to have a significant impact on the Group's statement of financial position. Total comprehensive income will not change as a result of the former change above, but profit before tax is expected to reduce, offset by an increase in other comprehensive income as a consequence of the change in the calculation of the interest income. The impact cannot currently be quantified because the value of the scheme assets and the rate that will be used to calculate the interest income included in profit or loss, in 2013, will be determined at that time. The latter change above is not likely to have a significant impact on the Group's financial statements as, for the Group, such events are rare.

In addition to the above, the IASB has issued the following revisions to existing standards that are not expected to have a material impact on the Group's financial statements:

- Amendment to IFRS 7 'Financial Instruments: Disclosures – Transfers of Financial Assets' (issued October 2010)
- Amendments to IFRS 1 'Replacement of 'fixed dates' for certain exceptions with 'the date of transition to IFRSs' ' and 'Additional exemption for entities ceasing to suffer from severe hyperinflation' (issued December 2010)
- Amendment to IAS 12 'Income Taxes – Deferred Tax – Recovery of Underlying Assets' (issued December 2010)
- Amendment to IAS 1 'Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income' (issued June 2011)
- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) and Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) (issued December 2011).

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 as regards 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 best estimate, the Group considers the appropriateness of the methods and bases to the individual circumstances of the provision class and underwriting year. The process is designed to select the most appropriate best estimate.

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 and environmental pollution is examined on this basis. The results of these reviews are considered when establishing the appropriate levels of provisions for losses and loss adjustment expenses and unexpired periods of risk.

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. This technique means that the estimate is inevitably deterministic rather than stochastic.

The pension assets and pension 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, investment return 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 judgments 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 seeks to provide appropriate levels of provisions for losses and loss adjustment expenses and provision for unexpired risks taking the known facts and experience into account.

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 judgments 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 judgments and assumptions that are more likely than others to have a material impact on the future development of the insurance contract liabilities.

The sections below identify a number of 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 reduce such exposure to levels acceptable to the Group.

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.

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 RSA 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. While such representations, warranties and indemnities are essential components of many contractual relationships, they do not represent the underlying purpose for the transaction.

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 joint ventures, 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. 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 best 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 whom the directors believe will 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 credit worthiness 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.

The current economic crisis adds further uncertainty and volatility to underlying levels of market and credit risk in the Eurozone. The Group has, however, very limited direct exposure via its investment portfolio to the Eurozone and to the peripheral Eurozone countries in particular. As with all other invested assets, limits are set in line with the Group's risk appetite. The Group continues to monitor the situation closely and take action to manage its exposure as required.

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 single 'A' ratings. At the present time the ratings are 'A' (positive outlook) from S&P[1], 'A' (stable outlook) from AM Best and 'A2' (stable outlook) from Moody's. A worsening in the ratings 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.

Foreign exchange risk

The Group publishes consolidated financial statements in Pounds Sterling. Therefore, fluctuations in exchange rates used to translate other currencies, particularly other European currencies 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.

Income and expenses for each income statement item are translated at average exchange rates. Assets and liabilities, as reported in the statement of financial position, are translated at closing exchange rates at the end of the reporting period.

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 and the recent financial crisis. The Group continues to monitor the developments and react accordingly.

The new solvency framework for insurers being developed by the EU, referred to as 'Solvency II', is intended in the medium term to achieve greater harmonisation of approach across EU member states to assessing capital resources and requirements. There will be continued uncertainty until all the rules are finalised and the Group is actively participating in shaping the outcome through its involvement with European and UK regulators and industry bodies. The Group is actively progressing its implementation plans and the Directors are confident that the Group will continue to meet all future regulatory capital requirements.

Notes:

1. On 28 February 2012, after the signing of these financial statements, S&P upgraded the Group's rating to 'A+' (stable outlook).

RISK MANAGEMENT

As an insurance company, the Group is fundamentally concerned with the management of risks. This note 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 to identify, measure, manage, monitor and report the risks arising as a result of operating the business. The Risk Management System includes a comprehensive suite of risk policies, procedures, measurement, reporting and monitoring techniques and a series of stress tests and scenario analyses to ensure that the Group's risk exposures are managed appropriately.

The Group is exposed to financial risk through its financial assets, financial liabilities (borrowings), reinsurance assets and insurance contract liabilities. In particular the key financial risk is that the proceeds from the realisation of its financial assets are not sufficient to fund the obligations arising from its insurance contracts.

The Group manages its financial assets within a framework that has been developed to seek to ensure the ability to meet its obligations under insurance contracts. A key principle behind this process is to hold assets of sufficient credit quality and currency that provide a broad match against the liabilities arising from insurance contracts.

The components of insurance, reinsurance, operational, credit, market and liquidity risk management are addressed below:

Insurance risk

The Group's insurance activities are primarily concerned with the pricing, acceptance and management of risks from its customers. In accepting risks the Group is committing to the payment of claims and therefore these risks must be understood and controlled. Disciplined underwriting, encompassing risk assessment, risk management, pricing and exposure control is critical to the Group's success.

Property and casualty insurance 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 property and casualty products is generally based upon historical claims frequencies and claims severity averages, adjusted for inflation and 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 the Group exposes to risk.

Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the Group 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.

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.

Reserves – an overview

The Group establishes property and casualty 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 uses a variety of statistical techniques and a number of different bases to set reserves, depending on the business unit and line of business in question. The Group's reserving managers consider claims developments separately for each line of business and subdivide certain lines of business by major claim types or sub classifications of business. Large claims impacting each relevant account are also generally assessed separately, either being reserved at the face value of the loss adjusters' estimates or projected separately in order to allow for the future development of large claims.

The Group has a Group Reserving Committee consisting of the Group Chief Executive Officer, Chief Financial Officer, Group Underwriting and Claims Director and Group Chief Actuary. A similar committee has been established in each of the Group's major operating segments. The Group Reserving Committee monitors the decisions and judgments made by the business units as to the level of reserves recommended and makes the final decision on the reserves to be included within the consolidated financial statements ('Management Best Estimate'). In making its judgment, the Group Reserving Committee's aim is that, over the longer term, reserves should be more likely to run off favourably than adversely. However, there can be no assurance that reserves will not develop adversely and exceed the Management Best Estimate. In making its judgment of the Management Best Estimate of reserves to include in the consolidated financial statements, the Group Reserving Committee adopts the following approach:

- The Group's actuaries provide an indication of ultimate losses together with an assessment of risks and possible favourable or adverse developments that may not have been fully considered in calculating these indications. At the end of 2011 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
- Consideration is also made of the views of internal peer reviewers of the reserves and of third parties including actuaries, legal counsel, risk directors, underwriters and claims managers
- Consideration is made of how previous actuarial indications have developed.

In forming its collective judgment, the Committee considers this information as a whole.

Emerging and legal risks

These are risks that have been identified as potentially affecting the Group but are not able to be quantified. Existing or potential future risk exposures are identified and investigated in a structured way, using internal and external resources, and actions to mitigate, contain or remove these risks are taken.

In addition, to the extent that legal decisions in any of the jurisdictions in which the Group operates worldwide may increase court awards, and that the impact may be applied prospectively or retrospectively, claims reserves may prove insufficient to cover actual losses, LAE or future policy benefits. In such an event, or where it has been previously estimated that no liability would apply, the Group would add to its reserves and incur a charge to earnings. Such insufficiencies could have a material adverse effect on the Group's future consolidated financial position, financial results and cashflows.

In the ordinary course of its insurance activities, the Group is routinely involved in legal or arbitration proceedings with respect to liabilities, which are the subject of policy claims.

As insurance industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended issues related to claims and coverage may emerge. These issues can have a negative effect on the Group's financial results by either extending coverage beyond its underwriting intent or by increasing the number and size of claims.

Reinsurance risk

The Group is exposed to multiple insured losses arising out of a single occurrence, whether a natural peril event such as a hurricane, flood or an earthquake, or man made catastrophes such as an explosion or fire at a major industrial facility. Any such catastrophic event could generate insured losses under one or more of its policies.

The ability of the business units in each territory to assess the aggregation risk of a single event impacting on thousands of policyholders is vital. The Group employs proprietary exposure measurement systems to assess these risks. In some markets, particularly in the UK, the Group has in addition developed its own expertise in catastrophe modelling that is used in conjunction with outside consultants. The accurate estimation of the potential expected maximum loss for a catastrophe is critical and is the primary factor considered in designing the Group's catastrophe reinsurance programme.

The expertise within the Group on catastrophe modelling is shared through the Worldwide Reinsurance Practice Group, which also provides an overview of the Groupwide catastrophe exposures and reinsurance adequacy. A reinsurance programme is considered to be 'adequate' only if it covers at least 199 out of 200 possible events by loss size. This is referred to as the '1 in 200 year expected maximum loss'. Since 1999, the Group has set its total retention for a single catastrophic event based on geographic location.

The Group uses financial analysis models to assess the risk and reward effects of different reinsurance structures and prices.

The Group's reinsurance strategy is to purchase reinsurance in the most effective manner from reinsurers who meet its security standards.

All of the Group's operations are required to purchase reinsurance within agreed local reinsurance appetite parameters. The Group Corporate Centre reviews the operations' proposed catastrophe purchases to check that they at least meet the Group's '1 in 200 year' standard. 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. As a result the Group may decide to purchase further catastrophe coverage at the Group level. In addition to local reinsurance arrangements, the Group reinsures a portion of the risks underwritten to control exposure to losses, to reduce volatility and protect capital.

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.

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 include operational process reliability, information security, outsourcing of operations, dependence on key suppliers, implementation of strategic 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.

Credit risk

Credit risk is the risk of loss of value of the financial assets 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, through the setting and imposition of Group policies, procedures and limits. In defining its risk 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 insurance operations credit risks) 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 the Group's credit rating policy. 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 not rated securities.

The following table provides information regarding the aggregated credit risk exposure for financial assets of the Group as at 31 December 2011.

	Credit rating relating to financial assets that are neither past due nor impaired						Total of financial assets that are neither past due nor impaired
	AAA £m	AA £m	A £m	BBB £m	<BBB £m	Not rated £m	£m
Debt securities	6,639	2,070	2,231	524	53	150	11,667
Loans and receivables	3	5	18	2	–	76	104
Reinsurers' share of insurance contract liabilities	50	466	1,171	179	79	116	2,061
Insurance and reinsurance debtors[1]	53	21	63	52	2	2,984	3,175
Derivative assets	–	–	57	–	–	2	59
Other debtors	–	–	–	–	–	300	300
Cash and cash equivalents	339	316	320	89	62	132	1,258

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 2010

	Credit rating relating to financial assets that are neither past due nor impaired						Total of financial assets that are neither past due nor impaired
	AAA £m	AA £m	A £m	BBB £m	<BBB £m	Not rated £m	£m
Debt securities	6,996	1,800	1,927	423	93	185	11,424
Loans and receivables	–	–	33	3	–	77	113
Reinsurers' share of insurance contract liabilities	25	564	1,699	237	85	28	2,638
Insurance and reinsurance debtors[1]	53	17	75	71	18	2,743	2,977
Derivative assets	–	–	28	–	–	1	29
Other debtors	–	–	–	–	–	281	281
Cash and cash equivalents	326	433	228	86	12	232	1,317

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 **£138m** at 31 December 2011 and comprises less than **1%** of the total bond portfolio. In addition to this the Group holds **£132m** of senior and subordinated bank debt in these countries.

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. 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 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 2011 the Group held collateral against **£115m** (2010: £116m) of reinsurers' share of insurance contract liabilities.

The Group regularly monitors its aggregate exposures by reinsurer group, both current and contingent, in accordance with the methodology agreed by the BRC. The Group's largest reinsurance exposures to active reinsurance groups are Lloyd's of London, Munich Re, and HDI-Gerling. At 31 December 2011 the reinsurance asset recoverable from these groups does not exceed **3%** of the Group's total financial assets. Stress tests are performed on the Group's reinsurance assets and the limits are set such that in a catastrophic event, the exposure to a single reinsurer is estimated not to exceed **2%** 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 2011 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 2011.

	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	**11,667**	–	–	**4**	–	**3**	**11,674**	**(6)**
Loans and receivables	**104**	–	–	–	–	–	**104**	–
Reinsurers' share of insurance contract liabilities	**2,061**	–	–	–	–	**12**	**2,073**	–
Insurance and reinsurance debtors	**3,175**	**97**	**25**	**11**	**13**	**7**	**3,328**	**(4)**
Derivative assets	**59**	–	–	–	–	–	**59**	–
Other debtors	**300**	**13**	**19**	**6**	**3**	–	**341**	–
Cash and cash equivalents	**1,258**	–	–	–	–	–	**1,258**	–

As at 31 December 2010

	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	11,424	–	–	2	9	–	11,435	–
Loans and receivables	113	–	–	–	–	–	113	–
Reinsurers' share of insurance contract liabilities	2,638	–	–	–	–	14	2,652	(3)
Insurance and reinsurance debtors	2,977	92	32	11	21	4	3,137	(7)
Derivative assets	29	–	–	–	–	–	29	–
Other debtors	281	8	2	7	15	3	316	–
Cash and cash equivalents	1,317	–	–	–	–	–	1,317	–

Regional 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 within the overall financial control framework. Exposure monitoring and reporting is embedded throughout the organisation with aggregate credit positions reported and monitored at Group level.

The Group's investments comprise a broad range of financial investments issued principally in the UK, Canada and Scandinavia.

At 31 December 2011, the Group had pledged **£901m** (2010: £935m) of financial assets as collateral for liabilities or contingent liabilities and had accepted **£936m** (2010: £1,094m) collateral that could be sold or pledged. The nature of the assets pledged as collateral comprises government securities of **£855m** (2010: £794m), cash and cash equivalents of **£13m** (2010: £67m) and debt securities of **£33m** (2010: £74m). The terms and conditions of the collateral pledged are market standard in relation to letter of credit facilities.

The Group is permitted to sell or repledge collateral held in the event of default by the owner, the fair value of which has been noted above at **£936m**. The terms and conditions of the collateral held are market standard. The assets held as collateral are readily convertible into cash.

At 31 December 2011, 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 **£297m** (2010: £294m) and the carrying value of the associated liabilities is **£297m** (2010: £294m).

Market risk

The Group is exposed to the risk of potential losses from adverse movements in market rates and prices as follows:

- Interest rate risk
- Equity price risk
- Property price risk
- Currency risk
- Derivatives.

The market risk policy governs the Group's exposure to investment risks. Exposures are controlled by the setting of investment limits 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 100.

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 100.

The Group sets appropriate risk limits to ensure that no significant concentrations to 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 churning the portfolio looking for short term gains from its equity holdings.

The Group makes use of derivative products as appropriate to protect the portfolio from losses outside of its risk appetite.

Property price risk

The Group's portfolio of properties is subject to property price risk arising from changes in the market value of properties. Thus if the value of property falls so will the fair value of the portfolio as set out in the sensitivity analysis on page 100.

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 33 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 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 contracts. Derivatives are used to manage exposures within the limits that have been set. In managing structural currency risk, net assets maintained by the Group's subsidiaries in local currencies are taken into account to satisfy local regulatory solvency and internal risk based capital requirements. 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 2011, the Group's total shareholders' equity analysed by currency is:

	Sterling £m	Danish Krone/Euro £m	Canadian Dollar £m	Swedish Krona £m	Other £m	Total £m
Shareholders' equity at 31 December 2011	**876**	**681**	**745**	**568**	**931**	**3,801**
Shareholders' equity at 31 December 2010	865	953	490	515	943	3,766

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 Sterling against Danish Krone/Euro £m	10% weakening in Sterling against Danish Krone/Euro £m	10% strengthening in Sterling against Canadian Dollar £m	10% weakening in Sterling against Canadian Dollar £m	10% strengthening in Sterling against Swedish Krona £m	10% weakening in Sterling against Swedish Krona £m
Movement in shareholders' equity at 31 December 2011	**(62)**	**75**	**(68)**	**83**	**(52)**	**63**
Movement in shareholders' equity at 31 December 2010	(86)	105	(45)	54	(47)	57

The analysis aggregates the Danish Krone exposure and the Euro exposure as currently the Danish Krone is closely pegged to the Euro. The Group considers the aggregate exposures when reviewing its hedging strategy.

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 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 and equity price risk. The Group does not use derivatives to leverage its exposure to markets and does not hold or issue derivative financial instruments for speculative purposes. Forward contracts and foreign exchange options are used to reduce the risk of adverse currency movements on certain forecast future cash transactions and for structural hedging. The policy on use of derivatives is approved by the BRC.

	Remaining life			Fair value		Notional principal amounts	
	Less than one year £m	**One to five years £m**	**More than five years £m**	**2011 £m**	2010 £m	**2011 £m**	2010 £m
Cross currency							
Asset	**15**	**–**	**–**	**15**	1	**900**	45
Liability	**12**	**–**	**2**	**14**	43	**760**	1,438
Inflation							
Asset	**–**	**–**	**10**	**10**	–	**see below**	see below
Liability	**–**	**–**	**13**	**13**	–	**see below**	see below
Equity/index							
Asset	**34**	**–**	**–**	**34**	28	**see below**	see below
Liability	**27**	**–**	**–**	**27**	45	**see below**	see below

At 31 December 2011 there are derivative contracts in place to protect the value of the UK, Canadian, European, and US equity portfolios of the Group. These provide limited protection against declines in market levels whilst also capping participation in any appreciation of the market. In total, this strategy covers an underlying equity value up to approximately **£477m** (2010: £779m). If UK, Canadian, European and US equity markets decreased by 15%, the impact of these derivatives as of 31 December 2011, would be to decrease the impact of the decline by **£30m** (2010: £42m).

During 2011 the Group entered into a series of swap contracts which collectively provide limited cover against a sharp increase in long term inflation. In total, the swap contracts provide inflation cover over a nominal value of £180m and are split over different contract terms.

At 31 December 2011 the Group holds forward currency contracts and foreign exchange options that are designated as hedging instruments to reduce structural foreign exchange risk. The derivatives are included in the table above. Further information on designated hedges can be found in note 28.

Sensitivity analysis

The Group uses a number of sensitivity or stress test based risk management tools to understand the impact 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 Individual Capital Assessment (ICA) models 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 some of the single factor changes adopted within the Group.

Changes in the income statement and equity:

	Increase/(decrease) in income statement		Decrease in equity	
	2011 £m	2010 £m	**2011 £m**	2010 £m
Interest rate markets:[2]				
Impact on fixed interest securities of increase in interest rates of 100bps[3]	**–**	–	**(393)**	(354)
Decrease of equity markets:[4]				
Direct impact on equities of a 15% fall in equity markets	**(28)**	(3)	**(116)**	(193)
Mitigating impact arising from derivatives held	**30**	42	**–**	–
Property markets:[4]				
Decrease of property markets of 15%	**(54)**	(56)	**(22)**	(25)

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.
3. The impact on the fair value of the loan capital is a decrease of **£75m** (2010: £64m).
4. The effect of movements in equity and property markets is reflected as a one time decrease of worldwide equity and property markets on 1 January 2012 and 1 January 2011 which results in a 15% decline in the value of the Group's assets in these investment categories.
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).

With reference to sensitivity analysis within insurance risk, 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 geographical and insurance risk diversity within the Group's portfolio of issued insurance policies makes it not possible to predict whether material development will occur and, if it does occur, the location and timing of such an occurrence.

The Group evaluates the concentration of exposures to individual and cumulative insurance risk and establishes its reinsurance policy to reduce such exposures to levels acceptable to the Group.

Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Group has no tolerance for liquidity risk and is committed to meeting all liabilities as they fall due. The investment risk limits set by the BRC ensure that the Group's portfolio is kept in highly liquid marketable securities sufficient to meet its liabilities as they come due based on actuarial assessment. 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 22.

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 duration.

As at 31 December 2011

	Less than one year £m	One to two years £m	Two to three years £m	Three to four years £m	Four to five years £m	Five to ten years £m	Greater than ten years £m	Total £m	Carrying value in the statement of financial position £m
Subordinated guaranteed US$ bonds	–	–	–	–	–	–	15	15	14
Subordinated guaranteed perpetual bonds	–	–	–	–	–	375	–	375	326
Subordinated guaranteed perpetual notes	–	–	450	–	–	–	–	450	480
Subordinated guaranteed dated notes	–	–	–	–	–	500	–	500	493
Provision for unearned premium	3,327	228	79	14	9	12	–	3,669	3,669
Provisions for losses and loss adjustment expenses	3,563	1,842	1,182	873	639	1,588	2,663	12,350	11,097
Direct insurance creditors	283	2	–	–	–	–	–	285	285
Reinsurance creditors	307	8	2	–	–	–	–	317	317
Borrowings	298	–	–	–	–	–	–	298	298
Deposits received from reinsurers	33	–	–	–	–	–	–	33	33
Derivative liabilities	54	–	–	–	–	–	–	54	54
Total	7,865	2,080	1,713	887	648	2,475	2,678	18,346	17,066
Interest on perpetual bonds and notes	112	112	112	73	73	132	11	625	

As at 31 December 2010

	Less than one year £m	One to two years £m	Two to three years £m	Three to four years £m	Four to five years £m	Five to ten years £m	Greater than ten years £m	Total £m	Carrying value in the statement of financial position £m
Subordinated guaranteed US$ bonds	–	–	–	–	–	–	15	15	14
Subordinated guaranteed perpetual bonds	–	–	–	–	–	375	–	375	320
Subordinated guaranteed perpetual notes	–	–	–	450	–	–	–	450	489
Subordinated guaranteed dated notes	–	–	–	–	–	500	–	500	492
Provision for unearned premium	2,986	336	78	20	14	10	2	3,446	3,446
Provisions for losses and loss adjustment expenses	4,254	1,766	1,237	914	668	1,664	2,527	13,030	11,694
Direct insurance creditors	247	3	1	–	–	–	1	252	252
Reinsurance creditors	372	29	1	1	1	–	–	404	404
Borrowings	297	–	–	–	–	–	1	298	298
Deposits received from reinsurers	12	–	–	–	–	–	–	12	12
Derivative liabilities	86	–	–	–	–	–	–	86	86
Total	8,254	2,134	1,317	1,385	683	2,549	2,546	18,868	17,507
Interest on perpetual bonds and notes	112	112	112	112	112	158	12	730	

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 has 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 19 to the financial statements.

Undiscounted interest payments are calculated based on underlying fixed interest (as detailed in note 19). Year end exchange rates have been used for interest projections on loans in foreign currencies.

Capital management

The maintenance of a strong capital position of the Group is critical to its ability to conduct business.

The Group maintains 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 provide protection against material events or shocks, the Group would normally expect to hold sufficient capital to maintain significant economic and regulatory surpluses.

The maintenance of a capital position in excess of regulatory requirements is an absolute requirement for all of the Group's regulated entities. There is no tolerance for breaching capital requirements for any regulated entity.

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. Assets and liabilities are valued on an economic basis providing the most realistic representation of the Group's financial position.

The economic capital analysis compares the economic value of the Group's assets with the total resources required in a range of adverse scenarios, calibrated to a defined risk tolerance consistent with the Group's 'A' rating which is in line with target. The economic capital surplus is the amount by which the economic assets exceed the total resources required. The total resources required is the amount of assets the Group needs today to meet its liabilities under the defined risk tolerance. The Group defines the economic capital required as the difference between the total resource requirement and the accounting value of liabilities. At 31 December 2011, the Group's surplus economic capital is approximately **£0.8bn** (2010: £1.1bn).

The reduction in the year is mainly the result of falling yield curves in the territories in which the Group operates and the impact of increased acquisitions during the year.

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 ICA. The only adjustment made is to use the FSA's required calibration.

Regulatory solvency position

The Group remains fully compliant with both the FSA'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 2011 the Group has an IGD surplus of approximately **£1.3bn** (2010: £1.5bn). Whilst the IGD surplus remains strong it has experienced a small decrease in the year with retained earnings being offset by increases in both capital requirements resulting from higher business volumes and intangible assets. The coverage ratio stood at **2.0** times at 31 December 2011 (2010: 2.3 times).

The Group received its latest Individual Capital Guidance (based on its ICA submission) from the FSA in late 2011 and at the request of the FSA 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.

The Group continues to implement a number of capital management initiatives, including the completion of a restructuring of its UK insurance companies on the 1 January 2012, reducing the number of UK regulated entities from 22 to 5.

NOTES TO THE FINANCIAL STATEMENTS

1. OPERATING SEGMENTS

During 2011, the Group was organised into three operating segments – the UK, International and Emerging Markets. The UK is the Group's country of domicile and one of its principal markets. International comprised operations in Scandinavia, Canada, Ireland and Italy and Emerging Markets comprises the Group's operations in Latin America, Asia and the Middle East and Central and Eastern Europe. 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.

This structure brought together operations with similar challenges and opportunities in order to give due focus to achieving the Group's objective of profitable growth across the business. Each operating segment was managed by a Chief Executive Officer (CEO) who was directly accountable to the Group CEO and the Board of Directors.

On 11 November 2011, the Group announced changes to the Group's operating structure and Executive Team. From 1 January 2012, the Group is organised into four regions, Scandinavia, Canada, UK & Western Europe, and Emerging Markets with each operating segment managed by a Chief Executive Officer (CEO) who is directly accountable to the Group CEO and the Board of Directors. The CEOs of Scandinavia and Canada have also joined the Group Executive Committee with effect from 1 January 2012. This new structure reflects the significant contribution that the Scandinavian and Canadian businesses make to the Group's results and will drive improved performance across the UK & Western European region, which includes Ireland and Italy.

A reconciliation of the results reported under the new operating structure to the results reported under the previous structure is included at the end of this note. The business review is presented using the new operating structure.

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

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

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 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 operating 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.

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.

The investment result, excluding unwind of discount and foreign exchange, is disclosed as net investment return on the statutory basis.

Other activities primarily comprise administration expenses, ongoing investment in the Group's operations in Central and Eastern Europe and other expenses of **£99m** (2010: £102m), the Group share in the loss after tax of its associates of **£9m** (2010: £5m) and investment expenses and charges of **£34m** (2010: £33m).

1. OPERATING SEGMENTS CONTINUED

Segment revenue and results

Year ended 31 December 2011

	International £m	UK £m	Emerging Markets £m	Central functions £m	Total Group £m
Net written premiums	3,921	3,087	1,103	27	8,138
Underwriting result	341	40	3	(9)	375
Investment result	311	270	65	(4)	642
Insurance result	652	310	68	(13)	1,017
Other activities	(10)	2	(42)	(83)	(133)
Operating result (management basis)	642	312	26	(96)	884
Interest costs					(117)
Amortisation and impairment of intangible assets					(114)
Solvency II costs					(30)
Acquisitions and disposals					(10)
Profit before tax (per income statement)					613
Combined operating ratio (%)	91.0	98.2	98.7	–	94.9
Other segment items included in the income statement:					
Investment income	278	236	52	13	579
Investment expense and charges	(14)	–	(11)	(9)	(34)
Depreciation, amortisation and impairment	(63)	(104)	(48)	(2)	(217)

Year ended 31 December 2010

	International £m	UK £m	Emerging Markets £m	Central functions £m	Total Group £m
Net written premiums	3,536	2,925	964	30	7,455
Underwriting result	325	(95)	12	(4)	238
Investment result	244	244	53	(3)	538
Insurance result	569	149	65	(7)	776
Other activities	(12)	–	(46)	(77)	(135)
Operating result (management basis)	557	149	19	(84)	641
Interest costs					(118)
Amortisation and impairment of intangible assets					(29)
Reorganisation costs					(5)
Solvency II costs					(5)
Acquisitions and disposals					(10)
Profit before tax (per income statement)					474
Combined operating ratio (%)	90.6	102.2	98.7	–	96.4
Other segment items included in the income statement:					
Investment income	286	269	60	(46)	569
Investment expense and charges	(12)	–	(10)	(11)	(33)
Depreciation, amortisation and impairment	(54)	(47)	(15)	(2)	(118)

No other material non cash expenses are reported internally by segment.

Net written premiums from major geographical regions

	Net written premiums		Non current assets	
	2011 £m	2010 £m	**2011 £m**	2010 £m
UK	**3,087**	2,925	**440**	427
Scandinavia	**1,824**	1,724	**420**	388
Canada	**1,483**	1,245	**391**	258
Other Europe	**614**	567	**133**	135
Other	**1,130**	994	**641**	700
	8,138	7,455	**2,025**	1,908

Net written premiums are allocated to the countries in which the business is underwritten or managed.

Non current assets comprise goodwill and intangible assets, property and equipment, investment property and investments in associates.

Other Europe comprises the Group's businesses in Ireland and Italy.

Presentation under revised management structure

On 11 November 2011, the Group announced changes to the Group's operating structure and Executive Team. From 1 January 2012, the Group is organised into four regions, Scandinavia, Canada, UK & Western Europe and Emerging Markets.

The analysis of the segmental revenue and underwriting result under the revised structure is presented below.

Year ended 31 December 2011

	Scandinavia £m	Canada £m	UK & Western Europe £m	Emerging Markets £m	Central functions £m	Total Group £m
Net written premiums						
International	1,824	1,483	614	–	–	3,921
UK	–	–	3,087	–	–	3,087
Emerging Markets	–	–	–	1,103	–	1,103
Central functions	–	–	–	–	27	27
Total	1,824	1,483	3,701	1,103	27	8,138
Underwriting result						
International	264	116	(39)	–	–	341
UK	–	–	40	–	–	40
Emerging Markets	–	–	–	3	–	3
Central functions	–	–	–	–	(9)	(9)
Total	264	116	1	3	(9)	375
COR	85.4	91.6	99.6	98.7	–	94.9

1. OPERATING SEGMENTS CONTINUED

Year ended 31 December 2010

	Scandinavia £m	Canada £m	UK & Western Europe £m	Emerging Markets £m	Central functions £m	Total Group £m
Net written premiums						
International	1,724	1,245	567	–	–	3,536
UK	–	–	2,925	–	–	2,925
Emerging Markets	–	–	–	964	–	964
Central functions	–	–	–	–	30	30
Total	1,724	1,245	3,492	964	30	7,455
Underwriting result						
International	254	80	(9)	–	–	325
UK	–	–	(95)	–	–	(95)
Emerging Markets	–	–	–	12	–	12
Central functions	–	–	–	–	(4)	(4)
Total	254	80	(104)	12	(4)	238
COR	85.4	92.8	102.2	98.7	–	96.4

2. 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	
	2011 £m	2010 £m	**2011 £m**	2010 £m	**2011 £m**	2010 £m	**2011 £m**	2010 £m	**2011 £m**	2010 £m
Investment property	**37**	23	**2**	11	**(6)**	16	**–**	–	**33**	50
Equity securities:										
Available for sale	**58**	52	**155**	48	**–**	–	**(18)**	(4)	**195**	96
At fair value through the income statement	**5**	3	**(1)**	(1)	**2**	9	**–**	–	**6**	11
Debt securities:										
Available for sale	**446**	452	**17**	–	**–**	–	**(6)**	–	**457**	452
At fair value through the income statement	**–**	–	**–**	–	**(17)**	(12)	**–**	–	**(17)**	(12)
Other investments:										
Loans secured by mortgages	**1**	1	**(1)**	–	**–**	–	**–**	–	**–**	1
Other loans	**4**	5	**–**	(1)	**–**	1	**–**	–	**4**	5
Other	**20**	21	**1**	2	**–**	1	**–**	–	**21**	24
Deposits, cash and cash equivalents	**15**	8	**–**	–	**–**	(1)	**–**	–	**15**	7
Derivatives	**(7)**	4	**28**	9	**10**	(18)	**–**	–	**31**	(5)
Net investment return	**579**	569	**201**	68	**(11)**	(4)	**(24)**	(4)	**745**	629

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 an economic hedge for fair value changes of assets held within the investment portfolio.

During 2011 the accrued interest income on impaired financial assets was **£nil** (2010: £nil).

Direct operating expenses (including repairs and maintenance) arising from investment properties were not material in 2011 or 2010.

Unrealised capital gains and losses recognised directly in equity 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 equity	
	2011 £m	2010 £m	**2011 £m**	2010 £m	**2011 £m**	2010 £m	**2011 £m**	2010 £m
Equity securities	**(70)**	134	**(155)**	(48)	**18**	4	**(207)**	90
Debt securities	**245**	(32)	**(17)**	–	**6**	–	**234**	(32)
Total	**175**	102	**(172)**	(48)	**24**	4	**27**	58

3. NET CLAIMS AND BENEFITS

	2011 £m	2010 £m
Gross claims paid	**6,448**	6,112
Gross changes in provisions for losses and loss adjustment expenses	**(853)**	588
Reinsurance recoveries on losses and loss adjustment expenses paid	**(1,099)**	(1,035)
Reinsurers' share of change in insurance contract liabilities for claims	**717**	(781)
Net claims and benefits	**5,213**	4,884

4. PROFIT BEFORE TAX

The following items have been included in arriving at the profit before tax on operations:

Other operating income

	2011 £m	2010 £m
Engineering inspection fees	**38**	39
Other income	**96**	77
Other operating income	**134**	116

Engineering inspection fees are ancillary to the provision of engineering insurance cover.

4. PROFIT BEFORE TAX CONTINUED

Other operating expenses

	2011 £m	2010 £m
Administration and other expenses	**93**	99
Investment expenses and charges	**34**	33
Amortisation and impairment of intangible assets	**114**	29
Solvency II costs	**30**	5
Reorganisation costs	**–**	5
Acquisitions	**11**	9
Foreign exchange losses/(gains)	**9**	(3)
Other operating expenses	**291**	177

Reorganisation costs relate to the UK cost reduction programme.

Other lease payments

The operating lease payments recognised as an expense during the year were **£70m** (2010: £64m). The Group has no significant lease agreements that include contingent rent.

Finance costs

	2011 £m	2010 £m
Interest expense on loan capital	**109**	110
Other loan interest	**8**	8
Finance costs	**117**	118

Auditor's remuneration

	2011 £m	2010 £m
Fees payable to Deloitte LLP for audit of the Company's annual accounts	**0.9**	0.9
Fees payable to Deloitte LLP and its associates for other services:		
The audit of the Company's subsidiaries, pursuant to legislation	**4.6**	4.5
Other services pursuant to legislation	**0.5**	0.3
Tax services	**0.2**	0.1
Services relating to corporate finance activities	**0.7**	2.1
Other	**2.7**	2.8
Auditor's remuneration	**9.6**	10.7

Other includes fees payable to the Company's auditors in respect of consultancy services relating to business transformation processes and regulatory development projects.

Directors' emoluments

The aggregate emoluments of the Directors, including amounts received from subsidiaries, were as follows:

	2011 £000	2010 £000
Emoluments of Executive Directors	**5,230**	4,270
Fees and other payments to Non-Executive Directors	**832**	734
	6,062	5,004

Details of Directors' remuneration and pension benefits, and details of Directors' interests in the Parent Company are shown in the remuneration report.

Employee information

Staff costs for all employees comprise:

	2011 £m	2010 £m
Wages and salaries	**904**	818
Social security costs	**124**	114
Pension costs	**78**	93
Share based payments to Directors and employees	**9**	28
	1,115	1,053

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

	2011 Number	2010 Number
UK	**8,671**	8,043
International	**8,593**	8,219
Emerging Markets	**5,976**	5,816
	23,240	22,078

5. INCOME TAX EXPENSE

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

	2011 £m	2010 £m
Current tax	**155**	149
Deferred tax	**31**	(30)
Taxation attributable to the Group	**186**	119

UK corporation tax is calculated at **26.5%** (2010: 28.0%) 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 **£(8)m** (2010: £(35)m) relates to UK corporation tax and **£194m** (2010: £154m) to overseas taxation.

	2011 £m	2010 £m
Profit before tax	**613**	474
Tax at the UK rate of **26.5%** (2010: 28.0%)	**163**	133
Tax effect of:		
Income/gains not taxable	**(24)**	(16)
Expenses not deductible for tax purposes	**45**	21
Tax losses not recognised	**12**	4
Release of tax provided in respect of prior periods	**(36)**	(20)
Different tax rates of subsidiaries operating in other jurisdictions	**(1)**	(8)
Effect of change in tax rates	**10**	3
Other	**17**	2
Income tax expense	**186**	119

6. EARNINGS PER SHARE ATTRIBUTABLE TO THE ORDINARY SHAREHOLDERS OF THE PARENT COMPANY

The earnings per ordinary share is calculated by reference to the profit attributable to the ordinary shareholders and the weighted average of shares in issue during the year.

Basic

Basic earnings per share is 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 the ESOP Trusts and Share Incentive Plan Trust and held as treasury shares.

	2011 £m	2010 £m
Profit attributable to the shareholders of the Parent Company	**426**	346
Less: cumulative preference dividends	**(9)**	(9)
Profit for the calculation of earnings per share	**417**	337
Weighted average number of ordinary shares in issue (thousands)	**3,511,180**	3,441,243
Basic earnings per share (p)	**11.9**	9.8

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 as categories of dilutive potential ordinary shares.

The calculation is performed for the dilutive potential ordinary shares to determine the number of shares that could 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 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 exercise of the dilutive potential ordinary shares.

	2011 £m	2010 £m
Profit for the calculation of earnings per share	**417**	337
Weighted average number of ordinary shares in issue (thousands)	**3,511,180**	3,441,243
Adjustments for share options and contingently issuable shares (thousands)	**29,824**	22,501
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**3,541,004**	3,463,744
Diluted earnings per share (p)	**11.8**	9.7

7. DIVIDENDS

	2011 p	2010 p	**2011 £m**	2010 £m
Ordinary dividend:				
Final paid in respect of prior year	**5.70**	5.33	**198**	182
Interim paid in respect of current year	**3.34**	3.12	**118**	108
			316	290
Preference dividend			**9**	9
			325	299

At the Annual General Meeting (AGM) on 14 May 2012, a final dividend in respect of the year ended 31 December 2011 of **5.82p** per share amounting to a total dividend of **£206m** 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 2012.

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.

The trustees of the Royal & Sun Alliance ESOP Trust and the Royal & Sun Alliance ESOP Trust No 2 waived their entitlement to (except for a nominal amount) dividends which reduced the total dividend paid by less than **£1m** (2010: less than £1m).

8. GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill £m	Intangible assets arising from acquired claims provisions £m	Software development £m	Other £m	Total £m
Cost					
At 1 January 2011	650	120	749	243	1,762
Additions and transfers	112	5	156	86	359
Disposals and transfers	–	–	(3)	(2)	(5)
Exchange adjustment	(28)	(3)	(8)	(6)	(45)
At 31 December 2011	734	122	894	321	2,071
Accumulated amortisation					
At 1 January 2011	–	117	332	104	553
Amortisation charge	–	3	67	29	99
Amortisation on disposals	–	–	(3)	(2)	(5)
Exchange adjustment	–	(3)	(2)	(3)	(8)
At 31 December 2011	–	117	394	128	639
Accumulated impairment					
At 1 January 2011	–	–	–	–	–
Impairment charge	71	–	2	–	73
At 31 December 2011	71	–	2	–	73
Net carrying amount at 31 December 2011	663	5	498	193	1,359

Other intangible assets include customer lists, renewal rights and acquired brands.

	Goodwill £m	Intangible assets arising from acquired claims provisions £m	Software development £m	Other £m	Total £m
Cost					
At 1 January 2010	508	124	616	188	1,436
Additions and transfers	128	–	127	47	302
Disposals and transfers	(4)	–	–	(5)	(9)
Exchange adjustment	18	(4)	6	13	33
At 31 December 2010	650	120	749	243	1,762
Accumulated amortisation					
At 1 January 2010	–	112	278	77	467
Amortisation charge	–	9	50	22	81
Amortisation on disposals	–	–	–	(1)	(1)
Exchange adjustment	–	(4)	4	6	6
At 31 December 2010	–	117	332	104	553
Net carrying amount at 31 December 2010	650	3	417	139	1,209

Amortisation expense of **£67m** (2010: £52m) has been charged to underwriting and policy acquisition costs and the balance is recognised in other operating expenses.

Additions of software development comprise **£9m** (2010: £8m) of external software and **£147m** (2010: £119m) of internally developed software.

Impairment tests for goodwill

Goodwill is allocated to the Group's cash generating units (CGUs) as follows:

	2011 £m	2010 £m
UK	**21**	52
International	**456**	359
Emerging Markets	**186**	239

Goodwill impairment charges of **£71m** (2010: £Nil) have been recognised within other operating expenses, split between the UK £41m and Emerging Markets £30m.

In the UK, the impairment losses impact Commercial lines and relate to the acquisitions of Martello in 2006 and Fyfe in 2008, where the Group has significantly scaled back activity in the economic downturn. The key estimate in the measurement of the recoverable amount is the discount rate applied to calculate the net present value of future cash flows, which has been estimated as **8%** as at 31 December 2011 (2010: 10%).

In Emerging Markets, the impairment charges reflects slower economic growth than originally anticipated in the Czech Republic and Poland. The key estimate assumption in determining the recoverable amount for both regions is the long-term growth rate, for which estimates of **5.1%** and **6.3%** in local currency for the Czech and Polish businesses respectively have been applied as at 31 December 2011 (2010: 8.0% and 10.0% respectively).

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 financial budgets approved by management covering a five year period. Cashflows beyond the five year period are extrapolated using the estimated growth rates which do not exceed the long term average past growth rate for the insurance business in which the CGU operates.

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 using historical trends, general geographical market conditions, industry trends and forecasts and other available information. These assumptions are subject to review by management and the Group Audit Committee. The cashflow forecasts are adjusted by appropriate discount rates. Discount rates used are within a range of **8%** to **21%** (2010: 9% to 15%), are pre tax and reflect specific risks relating to the relevant segments at the date of evaluation. The weighted average growth rates used in 2011 are within a range of **3%** to **13%** (2010: 2% to 5%).

9. PROPERTY AND EQUIPMENT

	Group occupied property – land and buildings £m	Other £m	Total £m
Cost/valuation			
At 1 January 2011	**164**	**398**	**562**
Additions	**–**	**37**	**37**
Acquisition of subsidiaries	**–**	**1**	**1**
Disposals	**(1)**	**(48)**	**(49)**
Revaluation adjustment	**5**	**–**	**5**
Exchange adjustment	**(3)**	**(6)**	**(9)**
Transfer to assets held for sale	**(16)**	**(1)**	**(17)**
At 31 December 2011	**149**	**381**	**530**

9. PROPERTY AND EQUIPMENT CONTINUED

	Group occupied property – land and buildings £m	Other £m	Total £m
Accumulated depreciation			
At 1 January 2011	–	268	268
Depreciation charge	1	33	34
Depreciation on disposals	–	(41)	(41)
Revaluation adjustment	(1)	–	(1)
Exchange adjustment	–	(4)	(4)
Transfer to assets held for sale	–	(1)	(1)
At 31 December 2011	–	255	255
Accumulated impairment			
At 1 January 2011	–	7	7
Impairment on disposals	–	(7)	(7)
At 31 December 2011	–	–	–
Net carrying amount at 31 December 2011	149	126	275

	Group occupied property – land and buildings £m	Other £m	Total £m
Cost/valuation			
At 1 January 2010	159	444	603
Additions	1	31	32
Acquisition of subsidiaries	–	4	4
Disposals	(1)	(86)	(87)
Revaluation adjustment	13	–	13
Exchange adjustment	7	12	19
Transfer to investment property	(10)	–	(10)
Transfer to assets held for sale	(5)	(7)	(12)
At 31 December 2010	164	398	562
Accumulated depreciation			
At 1 January 2010	–	312	312
Depreciation charge	2	35	37
Depreciation on disposals	–	(86)	(86)
Revaluation adjustment	(2)	–	(2)
Exchange adjustment	–	8	8
Transfer to assets held for sale	–	(1)	(1)
At 31 December 2010	–	268	268
Accumulated impairment			
At 1 January 2010	–	7	7
At 31 December 2010	–	7	7
Net carrying amount at 31 December 2010	164	123	287

The Group occupied property was revalued on 31 December 2011 by independent valuers.

Depreciation expenses of **£34m** (2010: £37m) 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 2011 is **£136m** (2010: £144m).

The movement in the Group occupied property reserve is shown below:

	2011 £m	2010 £m
Group occupied property reserve at 1 January	**33**	33
Fair value gains/(losses)	**–**	2
Transfers	**(1)**	(2)
Exchange adjustment	**(1)**	–
Group occupied property reserve at 31 December	**31**	33

10. INVESTMENT PROPERTY

Investment property consists of **£362m** (2010: £374m) freehold and long leasehold buildings.

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

	2011 £m	2010 £m
Investment property at 1 January	**374**	391
Additions from subsequent expenditure	**3**	1
Transfer from property and equipment	**–**	10
Sales	**(8)**	(41)
Fair value (losses)/gains	**(6)**	16
Exchange adjustment	**(1)**	(3)
Investment property at 31 December	**362**	374

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.

11. INVESTMENTS IN ASSOCIATES

The Group has the following investments in associates:

	Country	Ordinary shareholding
Caunce O'Hara & Company Limited	United Kingdom	30.0%
Royal Sundaram Alliance Insurance Company Limited	India	26.0%
Shaw Sabey & Associates Limited	Canada	25.0%
Syn Mun Kong Public Limited Company	Thailand	20.0%

Syn Mun Kong Public Limited Company is listed on the Stock Exchange of Thailand. The fair value of the Group's holding at 31 December 2011 is **£18m** (2010: £11m).

11. INVESTMENTS IN ASSOCIATES CONTINUED

Summarised below are the assets, liabilities, revenue and profit and loss of the companies above.

	2011 £m	2010 £m
Total assets	**425**	406
Total liabilities	**358**	313
Total revenue	**342**	280
Goodwill on acquisition	**13**	17
Loss/(profit) for the year after tax	**(11)**	15

The Group's share of net assets and profit and loss are accounted for under the equity method.

Some associates have been omitted from this note to avoid providing particulars of excessive length but none materially affects the results or assets of the Group.

12. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

	2011 £m	2010 £m
Equity securities	**1,060**	1,550
Debt securities	**11,674**	11,435
Financial assets measured at fair value	**12,734**	12,985
Loans and receivables	**104**	113
Total financial assets	**12,838**	13,098

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable, as explained more fully in Significant Accounting Policies:

	Fair value hierarchy 2011			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Available for sale financial assets:				
Equity securites	**1,010**	**–**	**28**	**1,038**
Debt securities	**11,461**	**148**	**10**	**11,619**
Financial assets at fair value through the income statement:				
Equity securites	**1**	**–**	**21**	**22**
Debt securities	**–**	**–**	**55**	**55**
	12,472	**148**	**114**	**12,734**
Derivative assets:				
At fair value through the income statement	**–**	**45**	**–**	**45**
Designated as hedging instruments	**–**	**14**	**–**	**14**
Total	**12,472**	**207**	**114**	**12,793**
Derivative liabilities				
At fair value through the income statement	**–**	**42**	**–**	**42**
Designated as hedging instruments	**–**	**12**	**–**	**12**
Total	**–**	**54**	**–**	**54**

	Fair value hierarchy 2010			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Available for sale financial assets:	1,402	105	28	1,535
Equity securites	11,253	88	23	11,364
Debt securities				
Financial assets at fair value through the income statement:				
Equity securites	2	–	13	15
Debt securities	–	–	71	71
	12,657	193	135	12,985
Derivative assets at fair value through the income statement	–	29	–	29
Total	12,657	222	135	13,014
Derivative liabilities				
At fair value through the income statement	–	47	–	47
Designated as hedging instruments	–	39	–	39
Total	–	86	–	86

None of the Group's insurance contract liabilities are measured at fair value. There were no transfers between Level 1 and Level 2 during 2011 or 2010.

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 2010	26	18	8	81	133
Total gains/(losses) recognised in:					
Income statement	–	1	7	(12)	(4)
Other comprehensive income	3	1	–	–	4
Purchases	–	17	–	–	17
Disposals	(1)	(14)	(2)	–	(17)
Exchange adjustment	–	–	–	2	2
Level 3 financial assets at 1 January 2011	28	23	13	71	135
Total gains/(losses) recognised in:					
Income statement	**–**	**–**	**3**	**(17)**	**(14)**
Other comprehensive income	**1**	**–**	**–**	**–**	**1**
Purchases	**–**	**1**	**5**	**1**	**7**
Disposals	**(1)**	**(14)**	**–**	**–**	**(15)**
Level 3 financial assets at 31 December 2011	**28**	**10**	**21**	**55**	**114**

Of the total gains/(losses) for the period recognised in the income statement (shown in the reconciliation above), losses of **£14m** (2010: £4m) 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), **£1m** (2010: £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.

13. REINSURERS' SHARE OF INSURANCE CONTRACT LIABILITIES

	2011 £m	2010 £m
Reinsurers' share of provision for unearned premiums	302	299
Reinsurers' share of provisions for losses and loss adjustment expenses	1,771	2,353
Total reinsurers' share of insurance contract liabilities	**2,073**	2,652
To be settled within 12 months	954	1,383
To be settled after 12 months	1,119	1,269

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

	2011 £m	2010 £m
Reinsurers' share of provision for unearned premiums at 1 January	299	301
Premiums ceded to reinsurers	993	993
Reinsurers' share of premiums earned	(1,002)	(1,019)
Changes in reinsurance asset	(9)	(26)
Reinsurers' share of portfolio transfers and acquisitions/(disposals) of subsidiaries	27	16
Exchange adjustment	(15)	8
Reinsurers' share of provision for unearned premiums at 31 December	302	299

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

	2011 £m	2010 £m
Reinsurers' share of provisions for losses and loss adjustment expenses at 1 January	2,353	1,494
Reinsurers' share of total claims incurred	382	1,816
Total reinsurance recoveries received	(1,099)	(1,035)
Reinsurers' share of portfolio transfers and acquisitions/(disposals) of subsidiaries	125	16
Exchange adjustment	4	58
Other movements	6	4
Reinsurers' share of provisions for losses and loss adjustment expenses at 31 December	1,771	2,353

14. INSURANCE AND REINSURANCE DEBTORS

	2011 £m	2010 £m
Insurance debtors comprise:		
Due from policyholders	1,435	1,370
Due from intermediaries	1,678	1,489
Total insurance debtors	3,113	2,859
Reinsurance debtors	215	278
Total insurance and reinsurance debtors	3,328	3,137

15. OTHER DEBTORS AND OTHER ASSETS

	2011 £m	2010 £m
Derivatives designated as hedging instruments	14	–
Derivatives used for economic hedging purposes	45	29
Other debtors	341	316
Pension scheme surplus	46	43
Accrued interest and rent	178	199
Prepayments	153	157
Total other debtors and other assets	**777**	744
To be settled within 12 months	640	587
To be settled after 12 months	137	157

16. CASH AND CASH EQUIVALENTS

	2011 £m	2010 £m
Cash and cash equivalents and bank overdrafts (as reported within the Consolidated Statement of Cashflows)	1,258	1,314
Add: bank overdrafts	–	3
Total cash and cash equivalents	**1,258**	1,317

The interest bearing financial assets included in cash and cash equivalents had an effective interest rate of **1.14%** (2010: 1.05%) and had an average maturity of **33** days (2010: 19 days).

17. TOTAL COMPREHENSIVE INCOME

Year ended 31 December 2011

	Revaluation reserves £m	Translation reserve £m	Retained earnings £m	Shareholders' equity £m	Non controlling interests £m	Total equity £m
Profit for the year	–	–	426	426	1	427
Exchange (losses)/gains net of tax	(5)	(56)	(10)	(71)	1	(70)
Fair value gains net of tax	26	–	–	26	–	26
Pension fund actuarial losses net of tax	–	–	(63)	(63)	–	(63)
Other comprehensive income/(expense) for the year	21	(56)	(73)	(108)	1	(107)
Total comprehensive income/(expense) for the year	21	(56)	353	318	2	320

17. TOTAL COMPREHENSIVE INCOME CONTINUED

Year ended 31 December 2010

	Revaluation reserves £m	Translation reserve £m	Retained earnings £m	Shareholders' equity £m	Non controlling interests £m	Total equity £m
Profit for the year	–	–	346	346	9	355
Exchange gains net of tax	12	40	–	52	1	53
Fair value gains net of tax	46	–	–	46	–	46
Pension fund actuarial gains net of tax	–	–	58	58	–	58
Other comprehensive income for the year	58	40	58	156	1	157
Total comprehensive income for the year	58	40	404	502	10	512

18. SHARE CAPITAL

During the year **18,409,921** (2010: 34,641,792) ordinary shares were issued on the exercise of employee share options and awards for a cash consideration of **£4m** (2010: £15m). The Parent Company also issued **16,660,432** (2010: 41,135,898) ordinary shares during the year under the scrip scheme as approved by shareholders. The total nominal value of ordinary shares issued during the year was **£9m** (2010: £21m).

	2011 £m	2010 £m
Issued and fully paid		
3,531,021,230 ordinary shares of 27.5p each (2010: 3,495,950,877 ordinary shares of 27.5p each)	**971**	962
125,000,000 preference shares of £1 each (2010: 125,000,000 preference shares of £1 each)	**125**	125
	1,096	1,087

The Royal & Sun Alliance ESOP Trust holds ordinary shares in the Parent Company, which may subsequently be transferred to employees (other than the Executive Directors). At 31 December 2011 the Trust held **1,660,274** ordinary shares (2010: 2,707,723) in the Parent Company with a nominal value of **£0.5m** (2010: £1m) and a mid market value of **£2m** (2010: £3m), based on the mid market closing value of the Company's shares on 30 December 2011.

The Royal & Sun Alliance ESOP Trust No 2 holds ordinary shares in the Parent Company, which may subsequently be transferred to employees including Executive Directors. At 31 December 2011 the Trust held **328,285** ordinary shares (2010: 2,343,679) in the Parent Company with a nominal value of **£0.1m** (2010: £1m) and a mid market value of **£0.3m** (2010: £3m), based on the mid market closing value of the Company's shares on 30 December 2011.

The Royal & Sun Alliance ESOP Trust No 3 holds **3,691,838** ordinary shares (2010: 3,336,230) in the Parent Company at 31 December 2011 with a nominal value of **£1m** (2010: £1m) and a mid market value of **£4m** (2010: £4m), based on the mid market closing value of the Company's shares on 30 December 2011. Of this, **3,214,671** ordinary shares (2010: 3,238,297) are beneficially owned by Group employees as Voluntary Deferred Shares under the Long Term Incentive Plan. The remaining **477,167** ordinary shares (2010: 97,933) may subsequently be transferred to employees, including Executive Directors, under one of the Group's employee share plans.

The RSA Share Incentive Plan Trust holds **6,464,048** ordinary shares (2010: 3,040,752) in the Parent Company at 31 December 2011 with a nominal value of **£2m** (2010: £1m) and a mid market value of **£7m** (2010: £4m) based on the mid market closing value of the Company's shares on 30 December 2011. Of this, **3,415,976** ordinary shares (2010: 1,553,451) are beneficially owned by Group employees as Partnership Shares and Dividend Shares under Sharebuild. The remaining **3,048,072** ordinary shares (2010: 1,467,533) may subsequently be transferred to employees, including Executive Directors, under Sharebuild.

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.

Preference shareholders shall not have any right to receive notice of, attend, speak or vote at any general meeting of the Parent Company unless:

- The preferential dividend on such shares for the dividend payment period immediately prior to the issue of the notice is in arrears or if any arrears or deficiency of dividend in respect of any preceding period has not been paid in full
- A resolution is proposed varying the rights attached to preference shares, for the winding up of the Parent Company or for a reduction of capital in the Parent Company (in which case preference shareholders may only vote on such resolution)
- In such other circumstances as the Directors may determine prior to the allotment of any preference shares.

The Parent Company in general meeting may by ordinary resolution declare dividends, but no dividend shall exceed the amount recommended by the Directors or permitted by law. The Directors may also pay such interim dividends as they think fit and pay the fixed dividends payable on any shares of the Parent Company half yearly or otherwise on fixed dates. Subject to shareholder approval, the Directors may allow shareholders to receive new ordinary shares in lieu of dividends paid in cash.

Provided a resolution of the Board exists, and in priority to any payment of dividend to other shareholders (other than any dividend not exceeding 0.1p per share), 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 and the shares are not redeemable. Preference shareholders have no further right to participate in the profits of the Parent Company. In addition, preference shares do not confer:

- Any right to participate in any offer by way of rights or otherwise to subscribe for additional shares in the Parent Company (except where required by law)
- Any rights of conversion
- Any right to participate in any issue of bonus shares.

The Directors may deduct from any dividend or other monies payable to any shareholder all sums of money presently payable by him to the Parent Company on account of calls or otherwise in relation to his shares in the Parent Company.

If the Parent Company is wound up, the liquidator may, with the sanction of an extraordinary resolution of the Parent Company divide among the shareholders the whole or any part of the assets of the Parent Company and may, for such purpose, set such value as he deems fair upon any property to be divided. The liquidator may also, with like sanction, vest the whole or any part of the Parent Company's assets in trustees upon such trusts for the benefit of the contributories as the liquidator shall think fit. No shareholder shall be compelled to accept any shares or other securities or other assets that are subject to any liability.

On a return of capital on a winding up (liquidation), preference shareholders are entitled, in priority to holders of ordinary shares of the Parent Company, to receive out of the surplus assets of the Parent Company any arrears and accruals of the dividend together with the greater of the price at which the gross yield on each preference share is equal to the mean gross yield on 3.5% War Loan or such Government Stock as may be agreed (but not exceeding twice the nominal amount of the preference share) and the nominal amount of the share together with any premium paid on issue.

The Directors may make calls on shareholders in respect of monies unpaid on their shares. If any call is not complied with the Directors may serve a notice on such shareholder requiring him to pay the call together with any interest and expenses incurred by the Parent Company. Failure to comply with a notice may result in forfeiture of any share which is the subject of the notice (including any dividends declared and other monies payable in respect of the shares so forfeited).

The Parent Company has a first and paramount lien on every share that is not fully paid for all monies called or payable in respect of such share. The Parent Company may sell any share on which the Parent Company has a lien passed following service of a notice on the shareholder demanding payment of the sum and giving notice of the Parent Company's intention to sell in default of such payment.

The Parent Company shall be entitled to sell any share of a shareholder if no cheque, warrant or order sent by the Parent Company in respect of the share in question has been cashed and no communication has been received by the Parent Company from the shareholder for a period of 12 years.

18. SHARE CAPITAL CONTINUED

No shareholder is, unless the Directors otherwise determine, entitled to attend or vote either personally or by proxy at any general meeting if:

- Any call or any sum presently payable by him to the Parent Company in respect of such share remains unpaid or
- The shareholder has failed to comply with a notice under section 793 of the Companies Act 2006 and is in default for a period of 14 days from the date of service of such notice.

Further, if a shareholder who holds 0.25% or more (in nominal value) of the issued shares is in default of a section 793 notice then the Directors may also withhold the payment of any dividend and restrict the transfer of shares held by such shareholder.

Save with the consent of preference shareholders, the Directors shall not increase the amount of any shares of any class (or any securities convertible into any shares of any class), ranking as regards participation in the profits or assets of the Parent Company (otherwise than on a redemption or purchase by the Parent Company of any such share) in priority to the preference shares.

The Directors may refuse to register any transfer of any share which is not a fully paid up share provided that such refusal does not prevent dealing in the shares from taking place on an open and proper basis. The Directors may likewise refuse to register any transfer in favour of more than four persons jointly.

The Directors may also refuse to register any transfer of any certificated share unless:

- A duly stamped instrument of transfer is delivered to the Parent Company's registered office together with the certificates of the shares to which it relates and any other evidence that the Directors may reasonably require to show the right of the transferor to make the transfer
- The instrument of transfer is in respect of only one class of share.

The Directors can require a shareholder to provide evidence that shares held by such shareholder are not held by or on behalf of a US Holder (as defined in the Articles of Association). The Directors may require a US Holder to sell its shares to a non US resident, failing which the Parent Company may effect a sale of such shares. The Directors may refuse to register a transfer by a US Holder where it is made to a US resident.

19. LOAN CAPITAL

	2011 £m	2010 £m
Subordinated guaranteed US$ bonds	**14**	14
Subordinated guaranteed dated notes	**493**	492
Total dated loan capital	**507**	506
Subordinated guaranteed perpetual bonds	**326**	320
Subordinated guaranteed perpetual notes	**480**	489
Total loan capital	**1,313**	1,315

The subordinated guaranteed US$ bonds ('Yankee Bonds') have a nominal value of $24m and a redemption date of 15 October 2029. The rate of interest payable on the Yankee Bonds is 8.95%.

The subordinated guaranteed dated 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 option 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 yield for a further five year period.

The subordinated guaranteed perpetual bonds 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 rate payable would be LIBOR plus 2.51%.

The subordinated guaranteed perpetual notes have a nominal value of £450m and pay an annual coupon of 8.50% with an option to call the notes, or if not called for the coupon rate to be reset, on 8 December 2014 and every five years thereafter.

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 to be repaid only after the claims of all other creditors have been met.

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

The aggregate fair value of total loan capital at 31 December 2011 is **£1,325m** (2010: £1,375m).

20. INSURANCE CONTRACT LIABILITIES

	2011 £m	2010 £m
Provision for unearned premiums	**3,669**	3,446
Provisions for losses and loss adjustment expenses	**11,097**	11,694
Total insurance contract liabilities	**14,766**	15,140

The provision for unearned premiums is shown net of deferred acquisition costs of **£845m** (2010: £783m). The movement in deferred acquisition costs during 2011 is attributed to **£1,119m** (2010: £964m) acquisition costs deferred during the year, **£1,060m** (2010: £922m) amortisation charged during the year, **£13m** exchange losses (2010: £20m exchange gains), and **£16m** (2010: £nil) due to acquisition of subsidiaries.

The reinsurers' share of deferred acquisition costs is shown within accruals and deferred income.

Provision for unearned premiums, gross of acquisition costs

	2011 £m	2010 £m
Provision for unearned premiums at 1 January	**4,229**	3,838
Premiums written	**9,131**	8,448
Less: premiums earned	**(8,858)**	(8,198)
Changes in provision for unearned premiums	**273**	250
Gross portfolio transfers and acquisitions	**85**	45
Exchange adjustment	**(73)**	96
Provision for unearned premiums (gross of acquisition costs) at 31 December	**4,514**	4,229

Provisions for losses and loss adjustment expenses

The following changes have occurred in the provisions for losses and loss adjustment expenses during the year:

	2011 £m	2010 £m
Provisions for losses and loss adjustment expenses at 1 January	**11,694**	10,613
Claims losses and expenses incurred	**5,595**	6,700
Total claims payments made in the year, net of salvage and other recoveries	**(6,448)**	(6,112)
Gross portfolio transfers, acquisitions and disposals	**274**	63
Exchange adjustment	**(108)**	351
Other movements	**90**	79
Provisions for losses and loss adjustment expenses at 31 December	**11,097**	11,694

Assumptions

The total value of provisions for losses and loss adjustment expenses less related reinsurance recoveries before discounting is **£9,939m** (2010: £10,001m).

20. INSURANCE CONTRACT LIABILITIES CONTINUED

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

		Discount rate		Average number of years to settlement	
	Category	**2011 %**	2010 %	**2011 Years**	2010 Years
UK	Asbestos and environmental	**5.00**	5.00	**13**	13
Scandinavia	Disability	**3.70**	3.70	**11**	12
Canada	Asbestos, environmental and casualty	**3.50**	3.50	**7**	5

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

Claims development tables

The tables below present changes in the historical provisions for losses and loss adjustment expenses that were established in 2001 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 (paid) triangle of the tables presents the amounts paid against those provisions in each subsequent accounting period.

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

Consolidated claims development table gross of reinsurance

	2001 and prior £m	2002 £m	2003 £m	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	**2011 £m**	Total £m
Estimate of cumulative claims												
At end of accident year	9,807	3,466	3,441	2,903	3,048	2,714	3,096	2,986	2,863	3,849	**3,498**	
One year later	10,322	3,189	3,256	2,644	2,957	2,741	3,087	3,003	2,936	3,841		
Two years later	10,473	3,270	3,135	2,453	2,837	2,641	3,077	2,977	2,899			
Three years later	10,770	3,228	3,015	2,338	2,710	2,560	3,002	2,939				
Four years later	11,137	3,150	2,937	2,257	2,632	2,502	2,953					
Five years later	11,642	3,138	2,871	2,207	2,562	2,503						
Six years later	11,537	3,105	2,854	2,172	2,540							
Seven years later	11,318	3,059	2,785	2,124								
Eight years later	11,324	3,023	2,779									
Nine years later	11,323	3,003										
Ten years later	11,215											
Claims paid												
One year later	3,175	1,387	1,272	979	1,295	1,114	1,420	1,501	1,427	2,199		
Two years later	1,565	477	375	322	374	410	463	466	492			
Three years later	1,264	325	258	208	215	218	303	282				
Four years later	813	215	186	170	164	197	195					
Five years later	541	122	124	102	120	138						
Six years later	414	94	88	91	95							
Seven years later	368	78	67	34								
Eight years later	301	75	35									
Nine years later	283	35										
Ten years later	198											
Cumulative claims paid	8,922	2,808	2,405	1,906	2,263	2,077	2,381	2,249	1,919	2,199		
2011 redundancy/(deficiency)	108	20	6	48	22	(1)	49	38	37	8		335
Reconciliation to the statement of financial position												
Current year provision before discounting	2,293	195	374	218	277	426	572	690	980	1,642	**3,498**	11,165
Exchange adjustment to closing rates												(100)
Discounting												(663)
Annuities												695
Present value recognised in the statement of financial position												**11,097**

20. INSURANCE CONTRACT LIABILITIES CONTINUED

Consolidated claims development table net of reinsurance

	2001 and prior £m	2002 £m	2003 £m	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	**2011 £m**	Total £m
Estimate of cumulative claims												
At end of accident year	7,633	2,687	2,484	2,325	2,498	2,521	2,624	2,678	2,571	2,718	**2,996**	
One year later	7,920	2,636	2,514	2,189	2,368	2,503	2,622	2,681	2,607	2,754		
Two years later	8,006	2,631	2,425	1,995	2,278	2,406	2,596	2,673	2,578			
Three years later	8,364	2,607	2,312	1,908	2,202	2,320	2,532	2,645				
Four years later	8,410	2,523	2,251	1,840	2,117	2,266	2,487					
Five years later	8,923	2,500	2,190	1,790	2,053	2,244						
Six years later	8,863	2,466	2,167	1,754	2,027							
Seven years later	8,787	2,431	2,107	1,709								
Eight years later	8,736	2,400	2,094									
Nine years later	8,685	2,380										
Ten years later	8,582											
Claims paid												
One year later	2,418	1,111	906	733	970	1,013	1,177	1,336	1,304	1,439		
Two years later	1,209	358	304	265	299	358	374	398	412			
Three years later	1,063	269	214	186	173	195	272	257				
Four years later	576	174	112	143	144	177	169					
Five years later	416	96	93	91	104	120						
Six years later	271	75	65	73	83							
Seven years later	295	54	52	27								
Eight years later	237	59	27									
Nine years later	168	22										
Ten years later	142											
Cumulative claims paid	6,795	2,218	1,773	1,518	1,773	1,863	1,992	1,991	1,716	1,439		
2011 redundancy/(deficiency)	103	20	13	45	26	22	45	28	29	(36)		295
Reconciliation to the statement of financial position												
Current year provision before discounting	1,787	162	321	191	254	381	495	654	862	1,315	**2,996**	9,418
Exchange adjustment to closing rates												(92)
Discounting												(613)
Annuities												613
Present value recognised in the statement of financial position												**9,326**

21. INSURANCE AND REINSURANCE LIABILITIES

	2011 £m	2010 £m
Direct insurance creditors	**285**	252
Reinsurance creditors	**317**	404
Total insurance and reinsurance liabilities	**602**	656

22. BORROWINGS

The Group's borrowings of **£298m** (2010: £298m) primarily relate to loans from credit institutions under a repurchase agreement. Further information is contained in the risk management section.

At 31 December 2011 total unsecured loans from credit institutions under committed credit facilities of **£455m** (2010: £455m) are available to the Group. There are no amounts outstanding at 31 December 2011 (2010: £nil). The facility expires in 2013.

At 31 December 2011 the Group has in place a US$1bn (2010: US$1bn) Euro commercial paper program. There are no amounts outstanding at 31 December 2011 (2010: £nil).

The Articles of Association of the Group defines a cap on borrowing limits. This cap is not being amended at the 2012 AGM. At 31 December 2011 the cap on borrowing limits is **£4,708m** (2010: £4,675m) of which **£1,638m** (2010: £1,638m) had been utilised.

23. CURRENT AND DEFERRED TAX

Current tax

	Asset		Liability	
	2011 £m	2010 £m	2011 £m	2010 £m
To be settled within 12 months	**10**	18	**50**	116
To be settled after 12 months	**23**	15	**54**	42
	33	33	**104**	158

Deferred tax

	2011 £m	2010 £m
Deferred tax assets	**249**	204
Deferred tax liabilities	**(102)**	(42)
Net deferred tax position at 31 December	**147**	162

23. CURRENT AND DEFERRED TAX CONTINUED

The following are the major deferred tax assets and liabilities recognised by the Group and their movements during the year:

	Reclassification of debt £m	Retirement benefit obligations £m	Net insurance contract liabilities £m	Revaluation of investments £m	Other temporary differences £m	Total £m
Deferred tax at 1 January 2010	14	106	15	(22)	38	151
(Charge)/credit to the income statement for the year	–	(21)	2	8	43	32
(Charge)/credit to other comprehensive income for the year	–	(23)	–	3	3	(17)
(Charge)/credit to equity for the year	(2)	–	–	–	3	1
Net credit arising on acquisition/disposal of subsidiaries and other transfers	–	–	–	–	(2)	(2)
Exchange adjustment	–	2	2	(1)	(1)	2
Effect of change in tax rates						
Income statement	–	–	–	(1)	(1)	(2)
Other comprehensive income/equity	(1)	(3)	–	1	–	(3)
Deferred tax at 31 December 2010	11	61	19	(12)	83	162
(Charge)/credit to the income statement for the year	**–**	**(22)**	**(54)**	**(5)**	**60**	**(21)**
Credit/(charge) to other comprehensive income for the year	**–**	**12**	**–**	**18**	**(1)**	**29**
Charge to equity for the year	**(2)**	**–**	**–**	**–**	**(2)**	**(4)**
Net credit arising on acquisition/disposal of subsidiaries and other transfers	**–**	**–**	**8**	**–**	**(15)**	**(7)**
Exchange adjustment	**–**	**–**	**1**	**–**	**(1)**	**–**
Effect of change in tax rates						
Income statement	**–**	**–**	**–**	**(1)**	**(9)**	**(10)**
Other comprehensive income/equity	**(1)**	**(2)**	**–**	**1**	**–**	**(2)**
Deferred tax at 31 December 2011	**8**	**49**	**(26)**	**1**	**115**	**147**

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

	Current tax		Deferred tax		Total	
	2011 £m	2010 £m	**2011 £m**	2010 £m	**2011 £m**	2010 £m
Exchange gains and losses	**(3)**	8	**1**	2	**(2)**	10
Available for sale financial assets	**(18)**	(19)	**19**	4	**1**	(15)
Group occupied property	**–**	–	**(2)**	1	**(2)**	1
Fair value gains and losses	**(18)**	(19)	**17**	5	**(1)**	(14)
Pension fund actuarial gains and losses	**–**	–	**10**	(26)	**10**	(26)
Total (charged)/credited to other comprehensive income	**(21)**	(11)	**28**	(19)	**7**	(30)

The aggregate current and deferred tax relating to items that are (charged)/credited directly to equity is **£(3)m** (2010: £1m).

At the end of the reporting period, the Group has unused tax losses of **£2,128m** (2010: £1,835m) and unused tax credits of **£15m** (2010: £15m) available for offset against future profits. A deferred tax asset of **£148m** (2010: £109m) has been recognised in respect of losses and unused tax credits. In addition, the Group recognised **£80m** (2010: £69m) in respect of other deferred tax reliefs. These are included within other temporary

differences at 31 December 2011. No deferred tax asset has been recognised in respect of **£1,572m** (2010: £1,390m) tax losses and unused tax credits of **£11m** (2010: £5m) due to the unpredictability of future profit streams. Tax losses include **£194m** (2010: £152m) which will expire between 2012 and 2031, of which **£87m** (2010: £71m) have been recognised for deferred tax. Other tax losses and unused credits may be carried forward indefinitely.

The Group does not recognise deferred tax on the unremitted earnings of overseas subsidiaries, as the Group is able to control the remittance of earnings to the UK and there is no intention to remit any such earnings to the UK in the foreseeable future if the remittance would trigger a material incremental tax liability. The temporary difference in respect of the retained earnings of overseas subsidiaries and associates is **£965m** (2010: £841m).

Deferred tax assets of **£199m** (2010: £138m), which are in excess of profits arising from the reversal of existing taxable temporary differences and 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.

24. PROVISIONS

	2011 £m	2010 £m
Pensions and post retirement obligations	**235**	246
Reorganisation provisions	**–**	2
Other provisions	**154**	141
Total provisions at 31 December	**389**	389

Of the above, **£324m** is due to be settled outside of 12 months (2010: £339m).

Reorganisation provisions in 2010 relate mainly to Emerging Markets.

Other provisions includes **£29m** (2010: £32m) 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. Other provisions also includes Motor Insurance Bureau provision of **£21m** (2010: £25m) and deferred consideration of **£17m** (2010: £15m) in respect of acquisitions.

See note 26 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 2011	**2**	**141**
Exchange adjustment	**–**	**(1)**
Credited	**–**	**51**
Utilised	**(2)**	**(39)**
Released	**–**	**(4)**
Acquisition of subsidiary undertaking	**–**	**6**
Provisions at 31 December 2011	**–**	**154**

25. OTHER LIABILITIES

	2011 £m	2010 £m
Deposits received from reinsurers	**33**	12
Derivatives designated as hedging instruments	**12**	39
Other derivatives used for economic hedging purposes	**42**	47
Other creditors	**577**	708
Accruals and deferred income	**445**	405
Total other liabilities	**1,109**	1,211
To be settled within 12 months	**877**	974
To be settled after 12 months	**232**	237

In 2003 a subsidiary of the Group wrote an Adverse Development Cover (ADC) contract with its former US subsidiary. The liabilities arising under the ADC contract comprise an insurance component and a deposit component. The liability arising under the insurance component of £0.1bn represents the timing risk on the settlement of those liabilities. The financial liability arising under the deposit component is offset by the value of funds held in a trust fund whose trust deed only permits the trust fund assets to be used to settle amounts due under the ADC. The value of the funds held in trust at 31 December 2011 is **£0.1bn** (2010: £0.3bn) and the value of the liability of the deposit component is **£0.1bn** (2010: £0.3bn).

The insurance component is accounted for within insurance contract liabilities and the deposit component, offset by the value of the funds held in the trust account, is recognised under other liabilities.

26. 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 **£65m** (2010: £55m) 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 **£14m** (2010: £12m) were paid to this scheme during 2011 and are included in the costs shown above. The latest information regarding the funding of this scheme is taken from the interim report for the first half of 2011, when the scheme funding rate was **115%** (2010: 112%).

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 held mainly in separate trustee administered funds.

In April 2002, the primary UK defined benefit schemes were effectively closed to new entrants and in 2005, following discussions with the Trustees and consultation with the members, the UK defined benefit schemes were altered from providing benefits on a final salary basis to benefits on a revalued average salary basis with effect from 1 January 2006. Under the new benefit formula, the accrued benefits of current active members are based on salaries at the date of change and will increase in line with inflation each year (limited to 5% in any year) up to their retirement date. Benefits earned in each year from 1 January 2006 are based on salaries in that year and are revalued up to retirement.

In addition to these changes, the 2002 Scheme (which was the scheme to which new UK employees had been admitted following the closure of the defined benefit schemes to new members) 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 accrue future benefits on a defined contribution basis under the stakeholder scheme.

During 2009 the Group entered into arrangements that insured 55% of the retirement obligations relating to pensions in payment in the two main UK schemes. The arrangements comprise of assets and interest rate swaps combined with an insurance contract that provide for the full payment of the pensions in return for the actual investment return on a segregated portfolio of assets held by the pension funds at the inception of the arrangement. The pension schemes continue to benefit from the assets held in the portfolio and retain the obligation to meet the insured pension obligations. The assets and pension obligations are therefore not derecognised in the financial statements and an asset (representing the recovery of the insured pension obligations) and a liability (to pay the investment return on the portfolio of assets to the insurer) are recognised.

During 2010 changes were made to the benefit structure of the three main UK schemes. Changes affected future accrual from 1 March 2010 onwards. Accrual rates were reduced; the retirement age was increased; revaluation was subject to a cap of 2.5%; a cap was applied to the salary used for the defined benefit schemes and the schemes contracted back in to the State scheme. Employees were entitled to join the Stakeholder Pension scheme for earnings above the cap.

For the two main UK defined benefit schemes, the level of contributions in 2011 were **23%** and **22%** of pensionable salaries (2010: 23% and 22%). Additional contributions totalling **£51m** (2010: £45m) were made to the schemes, in accordance with the plan to reduce their funding deficits. Expected contributions to pension and post retirement benefit schemes for the year ending 31 December 2012 are approximately **£54m**, including a further **£37m** of additional contributions following the funding valuation in March 2009.

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. Benefits are generally payable for life.

The estimated discounted present values of the unfunded accumulated obligations are calculated in accordance with the advice of independent, qualified actuaries.

Movement in (deficit)/surplus during the year:

	2011 £m	2010 £m
(Deficit)/surplus at 1 January	(203)	(368)
Total pension expense	(13)	(38)
Employer contribution	100	125
Actuarial (losses)/gains	(73)	84
Exchange adjustment	1	(6)
Acquisition of subsidiary	(1)	–
Pension and post retirement (deficit)/surplus	(189)	(203)
Deferred tax in respect of net pension and post retirement deficit	49	61
Net pension and post retirement (deficit)/surplus at 31 December	(140)	(142)

The amounts recognised in the income statement are as follows:

	2011			2010
	UK £m	Other £m	Total £m	Total £m
Current service cost	16	12	28	28
Interest cost	271	24	295	297
Expected return on scheme assets	(289)	(22)	(311)	(297)
Past service cost/(benefit)	1	–	1	11
Gains on curtailment	–	–	–	(1)
Total (included in staff costs)	(1)	14	13	38

26. RETIREMENT BENEFIT OBLIGATIONS CONTINUED

The actuarial gains/(losses) recognised in equity are as follows:

	2011			2010
	UK £m	Other £m	Total £m	Total £m
Actual return on scheme assets	674	16	690	554
Less: expected return on scheme assets	(289)	(22)	(311)	(297)
Actual return on assets in excess of/(below) expectations	385	(6)	379	257
Experience (losses)/gains on liabilities	(70)	4	(66)	(44)
Change in actuarial assumptions	(364)	(22)	(386)	(129)
Actuarial (losses)/gains	(49)	(24)	(73)	84

The accumulated actuarial losses since 1 January 2004 are **£602m** (2010: £529m).

Excluding the pension liabilities covered by the insurance arrangement the assets and liabilities committed to the arrangement, the value of scheme assets and the residual scheme obligations are as follows:

	2011			2010
	UK £m	Other £m	Total £m	Total £m
Present value of obligations not covered by insurance arrangement	4,030	462	4,492	4,036
Equities	1,334	159	1,493	1,536
Bonds	1,805	190	1,995	1,786
Cash	309	9	318	109
Property, derivatives and other	494	3	497	402
Total assets in the schemes (excluding those used to fund insurance arrangement)	3,942	361	4,303	3,833
Total deficit	(88)	(101)	(189)	(203)

Including the pension liabilities covered by the insurance arrangement and the assets and liabilities committed to the arrangement, the value of scheme assets and the residual scheme obligations are as follows:

	2011			2010
	UK £m	Other £m	Total £m	Total £m
Present value of funded obligations	5,531	349	5,880	5,349
Present value of unfunded obligations	9	113	122	118
Present value of obligations	5,540	462	6,002	5,467
Equities	1,334	159	1,493	1,536
Bonds	4,398	190	4,588	3,828
Cash	311	9	320	109
Property, derivatives and other	56	3	59	169
Present value of funded obligations fully covered by insurance arrangement	1,510	–	1,510	1,431
Value of obligations under insurance arrangement	(2,157)	–	(2,157)	(1,809)
Total assets in the schemes	5,452	361	5,813	5,264
Total deficit	(88)	(101)	(189)	(203)
Defined benefit pension schemes	(88)	(47)	(135)	(155)
Other post retirement benefits	–	(54)	(54)	(48)
Schemes in surplus (note 15)	27	19	46	43
Schemes in deficit (note 24)	(115)	(120)	(235)	(246)

The following is a reconciliation of the Group's retirement benefit obligations:

	2011 £m	2010 £m
Retirement benefit obligation at 1 January	5,467	5,178
Current service costs	28	28
Past service costs	1	11
Interest costs	295	297
Contributions by scheme participants	1	2
Actuarial loss/(gain) on obligations	452	173
(Gain)/loss on curtailments	–	(1)
Benefits paid	(254)	(247)
Acquisition of subsidiary	18	–
Exchange rate adjustment	(6)	26
Retirement benefit obligations at 31 December	6,002	5,467

26. RETIREMENT BENEFIT OBLIGATIONS CONTINUED

The following is a reconciliation of the Group's pension schemes' assets:

	2011 £m	2010 £m
Pension schemes' assets at 1 January	**5,264**	4,810
Return on schemes' assets	**690**	554
Contributions by the employer	**100**	125
Contributions by scheme participants	**1**	2
Benefits paid	**(254)**	(247)
Acquisition of subsidiary	**17**	–
Exchange rate adjustment	**(5)**	20
Pension schemes' assets at 31 December	**5,813**	5,264

Additional information for the current annual period and previous four annual periods:

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
At 31 December					
Present value of defined benefit obligations	**6,002**	5,467	5,178	4,536	5,086
Fair value of plan assets	**5,813**	5,264	4,810	5,042	5,244
(Deficit)/surplus	**(189)**	(203)	(368)	506	158
Experience adjustments on plan liabilities	**(66)**	(44)	116	(101)	(78)
Experience adjustments on plan assets	**379**	257	(389)	(413)	89

Assumptions

The principal actuarial assumptions used were as follows:

	UK		Other	
	2011 %	2010 %	2011 %	2010 %
Assumptions used in calculation of retirement benefit obligations:				
Discount rate	**4.9**	5.5	**5.1**	5.5
Annual rate of general inflation	**2.8**	3.1	**2.2**	2.2
Annual rate of increase in salaries	**3.6**	3.2	**4.2**	4.2
Annual rate of increase in pensions	**2.7**	2.9	**2.2**	2.2
Assumptions used in calculation of income statement credit/charge in the year:				
Discount rate	**5.5**	5.8	**5.8**	6.2
Expected return on:				
Equities	**8.0**	8.0	**7.8**	8.1
Bonds	**5.3**	5.9	**4.3**	4.9
Other	**5.4**	5.4	**2.4**	3.2

Expected return on schemes' assets

The weighted average expected return on schemes' assets across the Group for 2011 was **6.1%** (2010: 6.4%). The expected return on schemes' assets are determined for each asset class by considering both market conditions at the beginning of the reporting period and any expectations for longer term changes in current returns. All returns are net of investment expenses.

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 2009, 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. The next funding valuation is not due until 2012.

Reductions in future mortality rates are allowed for by using 80% (males) and 60% (females) of the long cohort improvements. The weighted average assumptions imply that a current pensioner aged 60 has an expected future lifetime of **27.5** (2010: 27.5) years (males) and **28.1** (2010: 28.1) years (females) and a future pensioner aged 60 in 15 years time has a future expected lifetime from age 60 of **28.3** (2010: 28.3) years (males) and **28.7** (2010: 28.7) years (females).

Commutation

Each of the UK defined benefit pension schemes has changed its rules to allow for increased commutation following 'A day' in April 2006. In 2010 and 2011, the Group followed the funding valuation assumptions, and an allowance was made for future commutation using the current commutation factors.

Sensitivity analysis

The discount rate, the assumed inflation rate and the mortality assumptions all have a significant effect on the IAS 19 accounting valuation. A 0.1% increase in the discount rate would reduce the defined benefit obligations in the UK not covered by the insurance arrangement by **£55m** (2010: £48m). A 0.1% increase in the inflation rate assumption would increase the defined benefit obligations in the UK not covered by the insurance arrangement by **£51m** (2010: £44m). An increase of one year in life expectancy would increase the defined benefit obligations (net of tax) in the UK not covered by the insurance arrangement by approximately **£84m** (2010: £65m). The Group has no material exposure to the effect of changes in medical costs.

27. SHARE BASED COMPENSATION

The Group has four types of share based payment plans which are settled in the form of ordinary shares: the Long Term Incentive Plan (LTIP), the Sharesave Plan (SAYE), the Sharebuild Plan and the Executive Share Option Scheme (ESOS). Dilution levels for all schemes are held strictly within Association of British Insurers limits. Further information on the LTIP scheme is included below and information on the other share schemes can be found in the remuneration report.

The total employment cost recorded in the income statement for all plans is **£9m** in 2011 (2010: £28m).

Analysis of share scheme costs (per income statement):

	2011 £m	2010 £m
LTIP	**4**	22
SAYE	**4**	5
Sharebuild	**1**	1
Total	**9**	28

The value of the awards granted during 2011 is **£25m** (2010 : £35m) of which **£6m** (2010: £8m) is charged in the income statement. The balance of the value of the awards will be charged to the income statement during the remaining vesting periods.

27. SHARE BASED COMPENSATION CONTINUED

Analysis of new awards costs:

	2011		2010	
	Charge for year £m	Total value £m	Charge for year £m	Total value £m
LTIP	5	21	7	30
SAYE	–	2	–	3
Sharebuild	1	2	1	2
Total	**6**	**25**	8	35

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.

The structure of the plan allows for a number of different types of awards to be made. Voluntary Deferred Shares are purchased by participants from net bonus payable (limited to a maximum value of 33% of net bonus); in addition, for senior executives, the Remuneration Committee may defer a portion of an individual's gross bonus (limited to 33% of that bonus) into an award over shares referred to for the purpose of the plan as Compulsory Deferred Shares. Voluntary Deferred Shares are held in trust for three years. Compulsory Deferred Shares awards are normally forfeited on an employee leaving the Group. No further performance conditions apply. The Remuneration Committee may make a conditional award of shares on a 'matched' basis to Voluntary and Compulsory Deferred Shares ('Matching Shares') up to a maximum of 2.5:1 and these are normally forfeited on an employee leaving the Group.

Additionally, the Remuneration Committee may make conditional awards of Performance Shares to senior executives and conditional awards of Restricted Shares to other executives and senior managers.

Awards of Performance Shares and Matching Shares related to Compulsory Deferred Shares are subject to a performance condition consisting of a combination of a return on equity target and a total shareholder return target (with performance measured by comparison against other European insurance companies) over a single three year performance period. Matching Shares related to Voluntary Deferred Shares are subject only to the return on equity performance condition. Restricted Shares are not subject to performance conditions. All awards vest on the third anniversary of the date of grant to the extent that the performance conditions have been met. Performance Shares and Restricted Shares are normally forfeited on an employee leaving the Group.

Further information on the LTIP can be found in the remuneration report within the corporate governance section. Further disclosures in respect of the SAYE and Sharebuild schemes have not been made on the grounds that the schemes are immaterial to the Group.

28. HEDGE ACCOUNTING

The Group designates certain forward foreign exchange contracts and foreign exchange options as hedging instruments against the net investment in designated subsidiaries to reduce the foreign exchange risk exposure.

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 operation at the strike price at the exercise date of the option.

The fair value of the hedging instruments at 31 December 2011 are a liability of **£12m** (2010: £39m) and an asset of **£14m** (2010: £nil). The hedge ineffectiveness recognised in the income statement during 2011 is **£nil** (2010: £nil).

Further information on derivatives, including those designated as hedging instruments, can be found in the risk management section.

29. 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[4]	General insurance
	Royal & Sun Alliance Reinsurance Limited	General insurance
	Sun Insurance Office Limited	General insurance
Argentina	Royal & Sun Alliance Seguros (Argentina) SA	General insurance
Bahrain	Royal & Sun Alliance Insurance (Middle East) Limited E.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
	GCAN Insurance Company[5]	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
Netherlands Antilles	Royal & Sun Alliance Insurance (Antilles) NV (51.0%)	General insurance
Poland	Link4 Towarzystwo Ubezpieczeń SA	General insurance
Republic of Ireland	RSA Insurance Ireland Limited	General insurance
Sweden	Trygg-Hansa Försäkrings AB	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 Group subsidiaries is attached to the Company's latest Annual Return, 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. The general insurance business of Royal International Insurance Holdings Limited will be legally transferred to Royal & Sun Alliance plc on 1 January 2012. Following this transfer, the principal activity of Royal International Insurance Holdings Limited will be as a holding company.
5. GCAN Insurance Company will be amalgamated into Royal & Sun Alliance Insurance Company of Canada on 1 January 2012.

30. BUSINESS COMBINATIONS

Acquisition of subsidiaries

On 7 January 2011, the Group acquired 100% of the share capital of Glenstone Capital Incorporated in Canada, the holding company of GCAN Insurance Company. The fair values of identifiable assets acquired comprise investments of £344m, intangible assets (excluding goodwill) of £51m, other assets of £205m and cash and cash equivalents of £9m. The fair values of liabilities assumed comprise insurance contract liabilities of £368m and other liabilities of £106m. The total cash consideration paid was £218m and goodwill of £83m arose on this acquisition.

During the year a number of small acquisitions were completed. On 22 March 2011, the Group acquired 51% of the share capital of Proteccion Garantizada LTDA. On 1 April 2011, the Group acquired 100% of the assets of Flewwelling Insurance Brokers Limited in Canada. On 6 April 2011, the Group acquired 100% of the share capital of Noble Marine (Underwriting Agencies) Limited and Noble Marine (Insurance Brokers) Limited in the United Kingdom. On 27 April 2011, the Group acquired 100% of the share capital of Oak Underwriting plc in the United Kingdom. On 14 July 2011, the Group acquired the business and underwriting assets of Expert Travel Financial Security Inc in Canada. On 30 November 2011, the Group acquired 100% of the assets of Haber Blain Insurance Brokers Limited in Canada. The acquisitions increase the Group's insurance activity in each of the countries. The total cash consideration paid was £104m and goodwill of £29m arose on these acquisitions.

Fair values of identifiable assets acquired and liabilities assumed for all business combinations in the year:

	£m
Investments	341
Intangible assets (excluding goodwill)	86
Other assets	209
Cash and cash equivalents	15
Insurance contract liabilities	(366)
Other liabilities	(75)
Net assets	210
Cash consideration	314
Deferred consideration	8
Total consideration paid	322
Goodwill on acquisitions	112

In addition to the acquisition of share capital, the Group acquired the rights to debt owed by Glenstone Capital Incorporated for consideration of £48m from its former parent.

The fair value of the financial assets acquired, included within other assets, includes premiums and insurance debtors of £32m, a reduction of £1m on their nominal value to take account of balances that are expected to be uncollectable.

Deferred consideration includes consideration which is contingent on the financial performance of the acquired business. The fair value of this consideration is estimated at £5m, with the minimum possible payment being £nil and the maximum possible payment being £26m.

During 2011 there were no significant changes in the recognised amounts of contingent consideration, and no changes in the range of outcomes, in respect of business combinations completed in earlier years.

Acquisition related costs for acquisitions concluded during the period (included in other operating expenses in the income statement for the year ended 31 December 2011) amounted to £2m.

On acquisition of Proteccion Garantizada LTDA, the Group recognised £4m of non controlling interests. The non controlling interest was measured as the proportionate share of the identifiable acquired net assets.

If the acquisitions had occurred on 1 January 2011, the contribution to the Group's net written premiums and fee income for the year would have been £132m and the contribution to the Group's profit after tax for the year would have been £20m. The total net written premiums and fee income of the acquired businesses since the acquisition dates included in the Group's net written premiums for the year is £117m. The total profit after tax of the acquired businesses since the acquisition dates included in the Group's profit for the year is £16m.

The goodwill shown above primarily arises from the premium paid to strengthen the Group's Commercial proposition in Canada by adding further technical expertise, geographic diversification and product breadth. Goodwill is further derived from the value of the workforces acquired, the growth from new customers and the significant synergies from reinsurance, capital and expense savings on integration into the Group.

Of the total goodwill recognised, £15m is expected to be deductible for income tax purposes.

Disposal of subsidiaries

Disposals completed during the period resulted in a profit to the Group of £1m. The total consideration received in cash was £10m and the cash and cash equivalents included in the businesses sold was £4m. The values of other assets and liabilities disposed were not significant to the Group.

31. CASHFLOWS FROM OPERATIONS

	2011 £m	2010 £m
Net profit for the year before tax	**613**	474
Adjustments for:		
Depreciation	**34**	37
Amortisation and impairment of intangible assets	**172**	81
Fair value gains (including gains on disposal) on property and equipment	**(1)**	–
Fair value gains (including gains on disposal) on financial assets	**(194)**	(37)
Fair value losses/(gains) (including losses/(gains) on disposal) on investment property	**4**	(27)
Impairment charge on available for sale financial assets	**24**	4
Share of loss from associates	**9**	5
(Gain)/loss on disposal of subsidiaries	**(1)**	1
Foreign exchange	**37**	55
Amortisation of available for sale investments	**39**	32
Other non cash movements	**(136)**	58
Changes in operating assets/liabilities:		
Movement in insurance contract liabilities		
Unearned premiums	**216**	216
Losses and loss adjustment expenses	**(52)**	(118)
Movement in working capital	**(201)**	(230)
Reclassification of interest received	**(459)**	(455)
Cash generated from operations	**104**	96

31. CASHFLOWS FROM OPERATIONS CONTINUED

Reconciliation to operating cashflow (management basis)

	2011 £m	2010 £m
Cash generated from operations	**104**	96
Investment income	**597**	578
Net purchase of property and equipment	**(23)**	(31)
Net purchase of intangibles	**(159)**	(133)
Dividends received from associates	**1**	2
Other items	**10**	4
Operating cashflow (management basis)	**530**	516

Other items principally comprise additional costs related to business combinations.

32. 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

	2011 £m	2010 £m
Salaries and other short term employee benefits	**7**	6
Bonus awards	**3**	4
Pension benefits	**1**	1
Share based awards	**2**	8
Total	**13**	19

Key management personnel comprise members of the Group Executive Committee, Executive Directors, and Non-Executive Directors.

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.

As at 31 December 2011, there are interest free loans totalling **£10,000** (2010: £10,000) outstanding to two members of the Executive Team under standard terms of the Group's UK Car Ownership Scheme, which is open to all UK managers within a qualifying salary band.

33. COMMITMENTS

Capital commitments

The Group's significant capital commitments in respect of property and equipment and intangible assets are detailed in the table below:

	2011 £m	2010 £m
Property and equipment	**19**	16
Intangible assets	**95**	71
Total	**114**	87

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	
	2011 £m	2010 £m	**2011 £m**	2010 £m
One year or less	**63**	64	**1**	2
Between one and five years	**184**	193	**2**	3
After five years	**116**	110	**–**	–
	363	367	**3**	5
Recoveries under sub tenancies	**(22)**	(34)	**–**	–
Total	**341**	333	**3**	5

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	
	2011 £m	2010 £m
One year or less	**26**	28
Between one and five years	**86**	95
After five years	**98**	121
Total	**210**	244

34. ASSETS HELD FOR SALE

The Group has classified **£17m** (2010: £11m) office property within the International operating segment as assets held for sale. The Group is actively marketing these properties. No material gain or loss has been recognised in the income statement since the reclassification. Profit on disposal of assets held for sale of less than **£1m** (2010: £nil) in aggregate is recognised within other operating income.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RSA INSURANCE GROUP PLC

We have audited the Parent Company financial statements of RSA Insurance Group plc for the year ended 31 December 2011 which comprise the Parent Company statement of comprehensive income, the Parent Company statement of changes in equity, the Parent Company statement of financial position, the Parent Company statement of cashflows and the related notes 1 to 11. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the Parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Parent Company financial statements:

- Give a true and fair view of the state of the Parent Company's affairs as at 31 December 2011 and of its profit for the year then ended
- Have been properly prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006
- Have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- The information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the Parent Company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Other matters

We have reported separately on the consolidated financial statements of RSA Insurance Group plc for the year ended 31 December 2011 and on the information in the Directors' remuneration report that is described as having being audited.

Graham Richardson (Senior Statutory Auditor) for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK
22 February 2012

PARENT COMPANY STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2011

	2011 £m	2010 £m
Fair value (losses)/gains net of tax	**(797)**	69
Profit for the year net of tax	**387**	359
Total comprehensive (expense)/income for the year	**(410)**	428

The profit for the year net of tax includes a tax credit of **£10m** (2010: £3m). There is no tax relating to fair value gains.

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2011

	Ordinary share capital £m	Ordinary share premium £m	Preference shares £m	Revaluation reserves £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2010	941	1,074	125	1,590	8	780	4,518
Fair value losses net of tax	–	–	–	69	–	–	69
Profit for the year net of tax	–	–	–	–	–	359	359
Total comprehensive income for the year	–	–	–	69	–	359	428
Dividends – paid (note 7)	–	–	–	–	–	(299)	(299)
Issued by scrip	11	41	–	–	–	–	52
Issued for cash (note 4)	6	9	–	–	–	–	15
Share based payments	4	–	–	–	–	24	28
Balance at 31 December 2010	962	1,124	125	1,659	8	864	4,742
Fair value gains net of tax	**–**	**–**	**–**	**(797)**	**–**	**–**	**(797)**
Profit for the year net of tax	**–**	**–**	**–**	**–**	**–**	**387**	**387**
Total comprehensive (expense)/income for the year	**–**	**–**	**–**	**(797)**	**–**	**387**	**(410)**
Dividends – paid (note 7)	**–**	**–**	**–**	**–**	**–**	**(325)**	**(325)**
Issued by scrip	**5**	**17**	**–**	**–**	**–**	**–**	**22**
Issued for cash (note 4)	**1**	**3**	**–**	**–**	**–**	**–**	**4**
Share based payments	**3**	**–**	**–**	**–**	**–**	**5**	**8**
Balance at 31 December 2011	**971**	**1,144**	**125**	**862**	**8**	**931**	**4,041**

The movement in equity for the year net of tax includes a net tax charge of **£1m** (2010: £1m).

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

PARENT COMPANY STATEMENT OF FINANCIAL POSITION

as at 31 December 2011

	Notes	2011 £m	2010 £m
Assets			
Fixtures and fittings		**6**	6
Intangible assets		**2**	1
Investments	2	**5,066**	4,713
Amounts owed by subsidiaries	9	**1,662**	2,293
Current tax assets	6	**12**	3
Deferred tax assets	6	**22**	25
Other debtors and other assets	3	**4**	4
		1,700	2,325
Cash and cash equivalents		**8**	3
Total assets		**6,782**	7,048
Equity and liabilities			
Equity			
Share capital	4	**1,096**	1,087
Reserves		**2,014**	2,791
Retained earnings		**931**	864
Total equity and reserves		**4,041**	4,742
Liabilities			
Amounts owed to subsidiaries	9	**1,338**	909
Loan capital	5	**1,313**	1,315
Current tax liabilities	6	**4**	4
Accruals and other liabilities		**86**	78
Total liabilities		**2,741**	2,306
Total equity, reserves and liabilities		**6,782**	7,048

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

The separate financial statements were approved on 22 February 2012 by the Board of Directors and are signed on its behalf by:

George Culmer
Chief Financial Officer

PARENT COMPANY STATEMENT OF CASHFLOWS

for the year ended 31 December 2011

	Notes	2011 £m	2010 £m
Net cashflows from operating activities	8	**(98)**	(75)
Purchase of fixtures and fittings		**(1)**	–
Purchase of intangible assets		**(2)**	(1)
Net movement in amounts owed by subsidiaries		**405**	309
Net cashflows from investing activities		**402**	308
Proceeds from issue of share capital		**4**	15
Dividends paid		**(303)**	(246)
Net cashflows from financing activities		**(299)**	(231)
Net increase in cash and cash equivalents		**5**	2
Cash and cash equivalents at beginning of the year		**3**	1
Cash and cash equivalents at end of the year		**8**	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

	2011 £m	2010 £m
Investments at 1 January – at valuation	**4,713**	4,644
Additions during the year	**1,158**	–
Disposals during the year	**(8)**	–
Fair value adjustments	**(797)**	69
Investments at 31 December – at valuation	**5,066**	4,713

The balance at 31 December comprises:

	2011 £m	2010 £m
Investment in subsidiaries	**4,202**	3,842
Loans to subsidiaries	**864**	871
	5,066	4,713

The investments in subsidiaries are recognised in the statement level 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 2011 was **105.2p**. A movement of 1% in the share price would have an impact of **£37m** on the fair value.

Full details of the principal subsidiaries of the Company are set out in note 29 to the consolidated financial statements.

3. OTHER DEBTORS AND OTHER ASSETS – TO BE SETTLED WITHIN 12 MONTHS

	2011 £m	2010 £m
Other prepayments and accrued income	**1**	1
Other debtors	**3**	3
Total other debtors and other assets	**4**	4

4. SHARE CAPITAL

Full details of the share capital of the Company are set out in note 18 to the consolidated financial statements.

5. LOAN CAPITAL

Full details of the loan capital of the Company are set out in note 19 to the consolidated financial statements.

6. CURRENT AND DEFERRED TAX

	Asset		Liability	
	2011 £m	2010 £m	**2011 £m**	2010 £m
To be settled within 12 months	**12**	3	**–**	–
To be settled after 12 months	**–**	–	**4**	4
	12	3	**4**	4

The current tax relating to items that are credited to equity is **£2m** (2010: £2m).

Deferred tax assets

Deferred tax for the current year is based on a rate of **25.0%** (2010: 27.0%). The following are the major deferred tax assets recognised by the Company and movements during the year:

	Other temporary differences £m	Reclassification of bonds £m	Accelerated capital allowances £m	Total £m
Deferred tax assets at 1 January 2010	7	14	2	23
Charge to equity for the year	–	(3)	–	(3)
Credit to the income statement for the year	5	–	–	5
Deferred tax assets at 31 December 2010	12	11	2	25
Credit to the income statement for the year	**–**	**–**	**1**	**1**
Charge to equity for the year	**–**	**(2)**	**–**	**(2)**
Effect of change in tax rates – income statement	**(1)**	**–**	**–**	**(1)**
Effect of change in tax rates – other comprehensive income/equity	**–**	**(1)**	**–**	**(1)**
Deferred tax assets at 31 December 2011	**11**	**8**	**3**	**22**

6. CURRENT AND DEFERRED TAX CONTINUED

Within other temporary differences, there is **£9m** (2010: £7m) in respect of deferred tax reliefs.

Deferred tax assets of **£22m** (2010: £25m), which are in excess of profits arising from the reversal of existing taxable temporary differences and 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 7 to the consolidated financial statements.

8. CASH GENERATED FROM OPERATIONS

	2011 £m	2010 £m
Net profit for the year before tax	**378**	356
Dividends received	**(450)**	(400)
Changes in operating assets/liabilities	**(26)**	(31)
Net cashflows from operating activities	**(98)**	(75)

9. RELATED PARTY TRANSACTIONS

RSA Insurance Group plc (incorporated in Great Britain and registered 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%** (2010: 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.

	2011 £m	2010 £m
Salaries and other short term employee benefits	**7**	6
Bonus awards	**3**	4
Pension benefits	**1**	1
Share based awards	**2**	8
Total	**13**	19

There are no employees with employment contracts with the Company. All employees are employed by subsidiary companies.

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.

As at 31 December 2011, there are interest free loans totalling **£10,000** (2010: £10,000) outstanding to two members of the Executive Team under standard terms of the Group's UK Car Ownership Scheme, which is open to all UK managers within a qualifying salary band.

Other transactions

Year end balances with related parties are set out below:

	2011 £m	2010 £m
Receivable from related parties:		
Receivable from subsidiaries, interest bearing loans	**842**	1,836
Receivable from subsidiaries, non interest bearing loans	**820**	457
Total receivable from related parties	**1,662**	2,293
Payable to related parties:		
Payable to subsidiaries, interest bearing loans	**888**	779
Payable to subsidiaries, non interest bearing loans	**450**	130
Total payable to related parties	**1,338**	909

Interest is charged on interest bearing loans, which are repayable on 24 hours written notice. **£618m** (2010: £509m) at three months LIBOR plus 0.6% and **£270m** (2010: £270m) at three months LIBOR +200bp.

Additional loans to subsidiaries of **£864m** (2010: £871m) as disclosed within note 2 have been made. Of this, **£294m** (2010: £294m), **£78m** (2010: £78m) and **£492m** (2010: £492m) 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 19 to the consolidated financial statements) and for amounts arising from its committed credit facilities (as set out in note 22 to the consolidated financial statements). The guarantees relating to the loan capital agreements are subordinated to all other creditors of RSAI.

10. SHARE BASED COMPENSATION

Full details of share based compensation plans are provided in note 27 to the consolidated financial statements.

11. RISK MANAGEMENT

The risks faced by the Company are derived from its investments 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.

RISK MANAGED

OUR RISK MANAGED BUSINESS DEALS WITH LARGE, CORPORATE AND MULTI-NATIONAL COMPANIES, USUALLY WITH TURNOVERS IN EXCESS OF £100M. OUR TEAM PROVIDES CUSTOMISED INSURANCE AND RISK MANAGEMENT SOLUTIONS FOR BUSINESSES WHEREVER THEY OPERATE.

Businesses of this size and scale often have unique and complex insurance needs, and those which operate on a global basis require an insurer with an in-depth knowledge of insurance issues that transcend international boundaries.

Many of our customers have similar insurance requirements, but require their own specific underwriting and risk management solutions.

Our bespoke solutions allow us to provide that flexibility and innovation in our insurance policies, whilst ensuring there are no gaps in cover. We employ a large number of experienced underwriters across all major industry sectors with expertise in complex, non-conventional arrangements and compliance programmes.

Our extensive range of insurance products includes

- Property Damage
- Casualty
- Business Interruption
- Professional and Financial Risks
- Marine
- Construction and Engineering.

Risk management is a core part of our offering. By working closely with brokers and customers to identify and assess risks, we are able to build comprehensive and bespoke risk improvement programmes. This proactive focus on risk management and improvement can help minimize the likelihood of large and devastating losses, providing further reassurance to our customers.

SHAREHOLDER INFORMATION

Registered Office and Group Corporate Centre

9th Floor, One Plantation Place, 30 Fenchurch Street, London EC3M 3BD. Telephone: +44(0) 20 7111 7000. Registered in England and Wales No. 2339826.

Group website

RSA's corporate website provides shareholders with a broad range of information about RSA's heritage, social and environmental responsibilities and investor information such as the Group's financial statements, current and historic share prices, AGM materials, events, governance information and answers to frequently asked questions in respect of shareholder matters. You may visit the investor website at **www.rsagroup.com/rsa/pages/ir/irhome.**

Registrar

The Company's share register is maintained by Equiniti Limited. Queries regarding your shareholding should be addressed to Equiniti at the following address:

Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA
Telephone: 0871 384 2048

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 dialing 18001 0121 415 7064 directly from the text phone.

Please quote your shareholder reference number (on your share certificate and dividend tax vouchers) when contacting or corresponding with Equiniti. Calls are charged at 8p per minute from a BT landline. Other telephone providers' costs may vary. Telephone lines are open from 8.30am to 5.30pm Monday to Friday.

Annual General Meeting

Ordinary shareholders are invited to attend the Company's Annual General Meeting (AGM), which will be held at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE at 11.00am on 14 May 2012. Ordinary shareholders who are unable to attend the AGM to ask a question in person are invited to send the Chairman an email via the Company's website or to write to the Chairman at the Registered Office address above.

Electronic communications

Changes to legislation allows companies greater flexibility when communicating with shareholders and allows corporate websites to be used as a primary source of information. By communicating with shareholders electronically RSA is able to distribute messages to all its shareholders instantaneously. Shareholders who register for electronic communications are more informed, receiving emails when our results are released. Shareholders may elect to receive paper copies of the Annual Report and Accounts by writing to or telephoning the Registrar.

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. Receiving the Company's communications electronically allows the Company to communicate with its shareholders in a more environmentally friendly, cost effective and timely manner.

Dividends

Shareholders are encouraged to have their dividends paid directly into their bank account as it is more secure than receiving cheques by post and ensures that cleared funds are available to shareholders on the dividend payment date. Those receiving dividends in this method are sent a consolidated tax voucher in March, showing both payments in the respective tax year. To take advantage of this convenient method of payment visit **www.shareview.co.uk** or contact Equiniti.

Scrip Dividend Scheme

RSA offers shareholders the opportunity to use their dividends to buy more ordinary shares in the Company by participating in the Company's Scrip Dividend Scheme. The Scheme applies to both interim and final dividends and enables shareholders to increase their holding in the Company without incurring dealing costs or stamp duty. If you wish to receive a scrip dividend instead of a cash dividend for future dividends on which a scrip alternative is offered, please contact Equiniti.

Share ownership

RSA is listed on the London Stock Exchange under the code RSA. The average total daily trading volume during 2011 was approximately 4.1m ordinary shares. The closing market price of an ordinary share on 4 January 2011 was 128.8p and the closing market price on 30 December 2011 was 105.2p. The highest daily closing price of an ordinary share was 143.5p on 17 February 2011 and the lowest daily closing price was 99.6p on 16 December 2011. Further details of the ordinary and preference shares are found in note 18 on pages 120 to 122.

Shareholdings by size

No. of shares	Shareholders	%	Shares	%
1 – 24,999	42,978	96.14	117,392,194	3.32
25,000 – 99,999	866	1.94	38,849,430	1.10
100,000 – 499,999	385	0.86	90,451,784	2.56
500,000 – 999,999	126	0.28	88,848,562	2.52
1,000,000 – 1,999,999	111	0.25	156,046,961	4.42
2,000,000 and above	239	0.53	3,039,432,299	86.08
Total	**44,705**	**100**	**3,531,021,230**	**100**

Distribution of shares by geography (%)

UK	70
USA and Canada	12
Europe	12
Asia and others	6

Analysis of investors (%)

Unit trusts/Mutual funds	52
Private/Retail	15
Pension funds	14
Other	14
Insurance	5

Managing your shareholding

Share register fraud: protecting your investment

It is required by law that our shareholder register is available for public inspection and we are unable to control the use of information obtained by persons inspecting the register. 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. Details of any share dealing facilities that the Company endorses will be included in Company mailings or on our website. 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 FSA by visiting **www.fsa.gov.uk/fsaregister**. More information on protecting your investment can be found at **www.fsa.gov.uk/consumerinformation/stay_safe.**

Tips on protecting your shares

- Keep any documentation that contains your shareholder reference number in a safe place and destroy any documentation which you no longer need 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.

Amalgamation of accounts

Shareholders who receive duplicate sets of Company mailings owing to multiple accounts in their name should contact Equiniti to request that their accounts be amalgamated.

Low cost share dealing facilities

Shareholders may purchase or sell their ordinary shares in RSA through their stockbroker, a high street bank or one of the providers detailed below:

RSA's registrar, Equiniti offers a telephone and internet dealing service. Commission is currently 1.5% with a minimum charge of £35 for telephone dealing and currently 1.5% with a minimum charge of £30 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**. You will need your shareholder reference number as shown on your share certificate.

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 £17.50. A postal dealing service is also available upon request. For telephone sales call +44(0) 845 6010 995 between 8.00am and 4.30pm, Monday to Friday. Please quote reference: Low Cost 331. Alternatively visit their website **www.stocktrade.co.uk.**

Please note that rates are as at February 2012 and may be subject to change. Please contact either provider for further guidance on their full terms and conditions.

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

29 February 2012
Ex dividend date for the first preference share dividend for 2012.

2 March 2012
Record date for the first preference dividend for 2012.

28 March 2012
Ex dividend date for the ordinary final dividend for 2011.

30 March 2012
Payment date for the first preference dividend for 2012 and record date for the ordinary final dividend for 2011.

4 April 2012
Announcement of the scrip dividend price for the ordinary final dividend for 2011.

3 May 2012
Q1 2012 interim management statement.

4 May 2012
Deadline for the receipt of scrip dividend mandates by Equiniti in relation to the ordinary final dividend for 2011.

14 May 2012
Annual General Meeting at the Queen Elizabeth II Conference Centre.

25 May 2012
Payment date for the ordinary final dividend for 2011 (subject to shareholder approval at the AGM).

2 August 2012*
Announcement of the half year results for the six months ended 30 June 2012, the ordinary interim dividend for 2012 and the second preference dividend for 2012.

8 August 2012*
Ex dividend date for the second preference dividend for 2012.

10 August 2012*
Record date for the second preference dividend for 2012.

26 September 2012*
Ex dividend date for the ordinary interim dividend for 2012.

28 September 2012*
Record date for the ordinary interim dividend for 2012.

1 October 2012*
Payment date for the second preference dividend for 2012.

3 October 2012*
Announcement of the scrip dividend price for the ordinary interim dividend for 2012.

26 October 2012*
Deadline for the receipt of scrip dividend mandates by Equiniti in relation to the ordinary interim dividend for 2012.

8 November 2012
Q3 2012 interim management statement.

23 November 2012*
Payment of the ordinary interim dividend for 2012.

* Provisional date

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.
Bancassurance	• Selling insurance through a bank's distribution network.
Capacity	• Largest amount of insurance available from a company • Can also refer to the largest amount of insurance or reinsurance available in the marketplace.
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 shares 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 and Expense 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: $\frac{\text{Net Incurred Claims}}{\text{Net Earned Premiums}}\% + \frac{\text{Expenses (including commissions)}}{\text{Net Written Premiums}}\%$
Commission	• An amount paid to an intermediary such as a broker for generating business.
Commission Ratio	• Ratio of net commission costs to Net Written 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 Written 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 Services Authority (FSA)	• The regulatory authority for the UK financial services industry (or its successor(s) for the UK insurance 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 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 I directive.
Insurance Result	• This is a measure of how well we have done, including both our underwriting result and investment performance.
Net Asset Value (NAV)	• The value of the Group calculated by subtracting our total liabilities including loan capital from our total assets. This represents the funds that would be available to ordinary shareholders if the Group were wound up.

JARGON BUSTER CONTINUED

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.
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.
Operating Profit	• The profit generated by the ordinary activities of the Group including both insurance and investment activity.
Portfolio Management	• Management of a group of similar risks, these are usually grouped by geography and line of business.
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.
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.
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 Return on Average Equity	• A measure of the profits the Group earns, adjusted for profit/loss on disposal of subsidiaries, reorganisation and integration costs and acquisition costs, relative to average 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 – Claims (including Claims Handling Expenses) – Expenses (including 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.
Yield	• Rate of return on an investment in percentage terms • The dividend payable on a share expressed as a percentage of the market price.

www.rsagroup.com

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www.addison.co.uk

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