Directors' Remuneration Report

Committee Chairman's letter

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Introduction

On behalf of the Group Remuneration Committee, I am pleased to introduce this report covering the year to 31 December 2015.

The Committee determines executive remuneration on the basis of a considered assessment of business performance, in line with the Remuneration Policy which was approved by shareholders at the AGM on 9 May 2014.

The Policy is summarised on pages 83 to 90 for information, and the full Policy Report is contained in the 2013 Directors' Remuneration Report, available on the Group's website at: www.rsagroup.com/financial-reporting.

Business performance review

The Group has delivered a strong set of results in 2015. The strategic refocus and capital strengthening are nearing successful completion, as outlined in the Chairman's Statement on pages 2 to 3.

The positive financial out-turn for the year is reflected in the key performance indicators, which are detailed on pages 22 to 23. The Group reported a pre-tax profit of £323m, Combined Operating Ratio was 96.9%, Net Written Premium was £6.8bn and Group underlying Return on Tangible Equity was 9.7%.

The capital indicators include IGD Surplus at £1.6bn, Solvency Capital Requirement coverage at 143% and the ratio of Tangible Net Asset Value to Net Written Premium (TNAV:NWP) at 42%.

Delivery of the business transformation programme is starting to yield clear benefits, despite challenging market conditions. Expense reduction has accelerated, attritional loss ratios have improved and process and systems optimisations have been driven forward. This has paved the way for further improvement in sustainable operating performance, as the Group progresses towards its medium-term goals.

Linking remuneration with performance in 2015

The Committee is focused on maintaining a close linkage between remuneration and the Company's underlying financial performance, shareholder value creation, and achievement of individual and business review performance targets. A review of material risk factors and controls was conducted for 2015, and as a result, no adjustments were considered necessary to incentive plan outcomes.

Based on the performance out-turn, I can advise that:

- The Group Chief Executive will receive a bonus for 2015 performance at 76.5% of the maximum, of which half is deferred into shares for three years, and
- The performance-based long-term incentive plan (LTIP) awards from the 2013–15 cycle will not vest (these were granted prior to the appointment of the current Executive Directors, and neither of them have awards in this cycle).

The conditional performance shares granted to the Group Chief Executive during 2015 are subject to stretching performance conditions. Awards which vest will do so after three years, after which a two-year retention period applies.

During the year, the Committee continued to monitor corporate governance best practice, and reviewed the Group's remuneration arrangements in conjunction with the risk alignment provisions of Solvency II. This follows the introduction of clawback provisions on cash bonuses awarded for 2015 performance, and performance shares granted from 2015, as detailed on page 75.

Details of how the Group has implemented its Remuneration Policy for directors in 2015 are set out on pages 71 to 78.

Aligning remuneration and strategy in 2016
The Directors' Remuneration Policy will continue unchanged for the year ahead. In the view of the Committee, it remains aligned to the long-term interests of the Company and its shareholders. We will review the Policy during 2016, and will submit it for shareholder approval at the 2017 AGM.

In 2016, the Policy will be implemented in the following ways, as detailed on pages 79 to 81:

- The Executive Directors' remuneration will continue to be based around delivery of the business strategy and the creation of sustained shareholder value within the Group's risk appetite, with incentive plans measuring performance against profit, shareholder returns, balance sheet strength, capital strength, expense goals and transformation actions.
- The Annual Bonus Plan for 2016 will include Group financial measures, business review goals and personal targets in the areas of Strategy, Financials, Customer, People and Risk. In line with our focus on deeper performance improvements at this stage of the business transformation, reduction in attritional loss ratio will additionally be targeted, and the Group's Solvency II coverage ratio will be included as a measure of capital strength to reflect the new Solvency II regime implemented from 1 January 2016. An assessment of current and future risk exposure will be conducted prior to making incentive awards.
- Stephen Hester's performance share grant in 2016 will be reduced from that in 2015 to the Group's usual level of award for the Chief Executive, which is 230% of salary at maximum vesting. Scott Egan's performance share grant in the 2016-18 cycle will be for 200% of salary at maximum vesting.
- The set of long-term incentive performance conditions for awards granted in the 2016-18 cycle have been reviewed to reflect the progress of the turnaround:
  - The three-year average Group underlying ROTE required for on-target vesting will be set higher up the 11-16% target range compared to the 2015-17 incentive cycle. It continues to incorporate an appropriate degree of stretch. The precise target will be disclosed retrospectively, as it is currently considered by the directors to be commercially sensitive.
  - Relative TSR will continue to be measured against an unweighted index of insurers as in the 2015-17 cycle, and the Business Review Scorecard will consist of a balanced set of long-term performance indicators covering capital, cumulative earnings, attritional loss ratio and controllable expense targets aligned to this stage of the business transformation.
- The Group Chief Executive's salary will rise by 2% in April 2016 having remained unchanged since his appointment two years ago – the level of increase is consistent with those for the Group's UK-based employees this year,
- The Chairman's fee will be maintained at its current level effective 1 January 2016. It will be reviewed on an annual basis going forwards.

Director changes
Scott Egan joined RSA on 1 October 2015 as Group Chief Financial Officer. His remuneration comprises a base salary of £525,000, and a bonus opportunity, benefits and pension provision in line with the Remuneration Policy. He is covered by a shareholding requirement of 150% of salary.

On leaving his previous employer, Mr Egan forfeited a number of cash-based awards. The Committee carefully reviewed the nature and value of these awards and, in line with the principles outlined in the Remuneration Policy, determined a compensatory package of cash and share awards should be made reflecting those forfeited. By compensating part of the forfeited awards in the form of shares, Mr Egan is given an early stake in RSA to help build his shareholding to the required level. The compensatory awards are subject to repayment terms in the event of resignation or termination for gross misconduct within two years of appointment, as set out on page 73.

Richard Houghton stepped down from the Board effective 7 May 2015 and left the Company on 10 July 2015. As referenced on page 77, his departure terms were detailed in last year's report.

Shareholder engagement
The Committee welcomes shareholder feedback on an ongoing basis. It has actively engaged with the Group's largest shareholders, and the Investment Association, Pension and Lifetime Savings Association and ISS, during the year, and will continue to do so. Feedback from this has been considered when determining the incentive plan performance measures for 2016.

The Committee believes its executive remuneration decisions fairly reflect performance, and the substantial progress delivered towards making the Company focused, stronger and better for the long term.

I hope you find this report informative, and the Board looks forward to your support for it at the AGM.

Hugh S Mitchell
Non-Executive Director and Chairman of Group Remuneration Committee
24 February 2016

Directors' Remuneration Report – continued

Remuneration snapshot

How is RSA implementing its approved Remuneration Policy for Executive Directors?

Policy summary	Opportunity and performance conditions	Implementation in 2015 (pages 71 to 78)	Implementation in 2016 (pages 79 to 81)
Base salary · Market competitive. · Reviewed annually.	· Other than exceptional circumstances such as a role change, salary increases will not exceed the level of increases applied to other RSA employees.	· No salary increases effective 1 April 2015.	· Group Chief Executive salary increase of 2% effective 1 April 2016. · Group CFO salary to be first reviewed in 2017.
Annual Bonus Plan · Financial and non-financial targets. · Fifty per cent of the bonus deferred into shares for three years. · Subject to RSA's Clawback Policy as detailed on page 75.	· 80% of salary on-target and 160% of salary for maximum performance. · Targets aligned to operational plan.	· 2015 performance measures: Group underlying ROTE and PBT, Group COR, Business Review and Personal Scorecards. · Group Chief Executive bonus at 76.5% of the maximum. · Clawback Policy extended to allow recovery of cash bonuses awarded for 2015 onwards.	· Business Review Scorecard to include Solvency II coverage ratio in place of IGD and ECA as a measure of capital strength; and additionally measure reduction in attritional loss ratio to support continued performance improvement.
Long-term Incentive Plan · Performance shares granted annually which vest subject to performance conditions measured over three years. · Two-year additional retention period on vested performance-based awards. · Subject to RSA's Clawback Policy as detailed on page 75.	· Up to 230% of salary at maximum. · For recruitment purposes, or in highly exceptional circumstances, such as for retention, an award may be made up to an additional 170% of salary.	*Awards granted (2015–17 cycle)* · Conditional grant for Group Chief Executive (300% of salary at maximum vesting, in view of his criticality to business turnaround). · Performance conditions: Relative TSR, Group underlying ROTE and Business Review Scorecard.	*Awards granted (2016–18 cycle)* · Group Chief Executive's conditional grant reduces to 230% of salary. CFO grant at 200%. · Group underlying ROTE on-target point set higher up the 11–16% range compared to 2015–17, to reflect progress of turnaround and to continue to incorporate an appropriate degree of stretch.

How was reward aligned to the business strategy in 2015?

Strategic priorities	Key performance indicators	Annual Bonus Plan 2015	Long-term incentive cycle 2015–17
Business Review: · Strategic focus, · Capital and balance sheet strength, · Performance improvement	Capital metrics: TNAV, TNAV:NWP, IGD, ECA Controllable expenses	*Business Review Scorecard:* Capital metrics including TNAV:NWP, Management actions including controllable expenses, disposals, risk items and strategic plan initiatives	*Business Review Scorecard:* Capital metrics, Controllable expenses, Growth in TNAV per share, Cumulative earnings
Profitability	Group underlying PBT, Group COR	Group underlying PBT, Group COR	
Shareholder Value	Group underlying ROTE	Group underlying ROTE	Group underlying ROTE (three-year average) Relative TSR

How have we linked performance and variable remuneration?

Annual Bonus Plan 2015

Performance measures	Actual performance	Weighting (% total bonus)	Stephen Hester award
Group underlying ROTE, PBT, COR	Performance targets, results and narrative on pages 72 to 73	40%	19.5%
Business Review Scorecard		30%	27%
Personal Scorecard		30%	30%
Total (% of maximum)		100%	76.5%

Long-term incentive cycle 2013–15

Performance measures	Actual performance	**Vesting (% of maximum)**
Relative TSR	Performance targets, results and narrative on page 74	0%
Group underlying ROE		0%

What remuneration did the Executive Directors receive in 2015? (details on page 71)

	Salary		Taxable benefits		Bonus		LTIP		Pension related benefits		Other remuneration		Total	
(£'000)	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
Adrian Brown	**–**	143	**–**	15	**–**	–	**–**	–	**–**	24	**–**	1	**–**	183
Scott Egan[1]	**131**	–	**6**	–	**–**	–	**–**	–	**13**	–	**1,605**	–	**1,755**	–
Stephen Hester	**950**	864	**71**	57	**1,163**	939	**–**	–	**285**	258	**–**	–	**2,469**	2,118
Richard Houghton[1]	**174**	494	**7**	21	**–**	100	**–**	–	**23**	67	**–**	–	**204**	682
Total	**1,255**	1,501	**84**	93	**1,163**	1,039	**–**	–	**321**	349	**1,605**	1	**4,428**	2,983

Note:
1. 2015 salary figures reflect time served as directors during the year.

Annual Report on Remuneration

1. Introduction

This section of the Directors' Remuneration Report describes the way in which remuneration decisions have been made in the financial year ended 31 December 2015. There is a statement on how the Group intends to implement its Remuneration Policy in 2016 on pages 79 to 81. Any information contained in this section of the report that is subject to audit is highlighted.

2. Information about the Group Remuneration Committee

Purpose of the Committee

The Group Remuneration Committee (the Committee) is a formal committee of the Board, accountable to shareholders through its policies and actions. It updates shareholders via the publication of the Directors' Remuneration Report. At the AGM on 6 May 2016, this Annual Report on Remuneration on pages 69 to 82, together with the Committee Chairman's letter on pages 66 to 67, will be put to an advisory vote. The Remuneration Policy was approved by shareholders at the AGM on 9 May 2014, and was effective from this date. The Policy is not subject to a vote this year, but is detailed in the Appendix on pages 83 to 90 for ease of reference.

The Committee determines the remuneration and contractual terms for the Executive Directors and the Executive Committee (whose profiles are contained on pages 42 to 45). It also approves the fee and contractual terms of the Chairman (whose profile is on page 42).

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

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

Committee members

The Committee comprises a number of independent Non-Executive Directors who are called upon to exercise judgement on the setting and management of executive remuneration.

The Committee's members in 2015 are detailed in the following table. The number of meetings each Director attended is shown as a proportion of the total number of meetings held during the year.

Committee member	Meetings attended
Hugh Mitchell*	5/5
Kath Cates	5/5
Enrico Cucchiani	5/5
Joseph Streppel	5/5
Johanna Waterous	5/5

Note:
* Chair of Committee

Committee attendees

The Chairman, Group Chief Executive and other senior executives attend Committee meetings by invitation to advise on Group strategy, risk, performance, HR and remuneration policies and practices. However, none of these executives have a right to attend and are not present if their own remuneration is being discussed. The table below notes the Committee attendees during 2015; additional input was provided by the Group Chief Risk Officer.

Committee attendee	Position
Martin Scicluna	Chairman
Derek Walsh	Group General Counsel and Company Secretary (Secretary to the Committee)
Stephen Hester	Group Chief Executive
Paul Whittaker	Group Chief Operating Officer
Vanessa Evans	Group Human Resources Director
Lorna Benton	Group Reward Director

Committee advisors

PricewaterhouseCoopers (PwC) was formally appointed by the Committee as its independent advisor in September 2012. It was selected following a market tender exercise. During 2015, PwC also provided wide-ranging advice and consultancy services across the Group globally on matters including business processes and transformation, IT, internal audit, corporate social responsibility, direct and indirect tax, and governance. PwC is a member of the Remuneration Consultants' Group and a signatory to its Code of Conduct. In addition, the Committee has satisfied itself that the advice it receives is objective and independent as the firm has confirmed there are no conflicts of interests arising between it, its advisors and RSA. The fee paid for services to the Committee in the year was £80,000 excluding VAT, based on a fixed fee for a defined scope of work.

Directors' Remuneration Report – continued

Committee meetings held in 2015

In 2015, the Committee met on five occasions and the table below summarises the matters it discussed.

Meeting	Regular items	Additional items
February	· Review of Executive Directors' personal goals for 2015 · Approval of 2015 incentive performance conditions · Review of directors' base salaries and approval to maintain current salaries from 1 April 2015 · Testing of the performance conditions underpinning the Annual Bonus Plan 2014 and the LTIP cycle 2012-14; approval of the level of directors' awards · Approval of the terms of the long-term incentive grant 2015 and directors' associated conditional share awards · Review of the Directors' Remuneration Report 2014	· Sharesave and Sharebuild participation update
May	· Review of the 2015 long-term incentive grant and an update on dilution levels · Approval for a supplementary grant of conditional long-term incentive awards in November 2015 for non-Board employees	· Shareholder engagement update · Corporate governance update
June	· None	· Appointment terms for Group Chief Financial Officer
September	· Review of incentive principles for 2016 · Review of Chairman's fee and approval to maintain current fee level · Approval to operate Sharesave and Sharebuild in 2015 · Approval of revised Remuneration Committee terms of reference	· Corporate governance and Solvency II update
December	· Update on the Annual Bonus Plan 2015 and long-term incentive cycles 2013, 2014 and 2015 · Review of 2016 incentive performance conditions · Review of the draft Directors' Remuneration Report 2015 · Update on the supplementary grant of conditional long-term incentive awards in November 2015 for non-Board employees · Review of outputs of Remuneration Committee Effectiveness Survey 2015 · Review of Committee meeting schedule for 2016	· Corporate governance update

Note:
1. Following its February meeting, the Committee additionally agreed the treatment of Richard Houghton's remuneration and terms related to his departure, as announced on 26 February 2015.

3. Total remuneration 2015: 'single figure' tables (audited)

The tables below set out the directors' total remuneration single figure for the financial year ended 31 December 2015. For comparative purposes, 2014 figures are also provided. The components of the Executive Directors' remuneration are detailed on pages 72 to 75. The fee structure applicable to Non-Executive Directors is detailed on page 81. Non-Executive Directors do not participate in any of the Group's incentive plans.

Executive Directors

	Salary		Taxable benefits[1]		Bonus[2]		LTIP		Pension related benefits[5]		Other remuneration[6]		Total	
(£'000)	**2015**	2014	**2015**	2014	**2015**	2014	**2015**[3]	2014[4]	**2015**	2014	**2015**	2014	**2015**	2014
Adrian Brown[7]	**–**	143	**–**	15	**–**	–	**–**	–	**–**	24	**–**	1	**–**	183
Scott Egan[8]	**131**	–	**6**	–	**–**	–	**–**	–	**13**	–	**1,605**	–	**1,755**	–
Stephen Hester[9]	**950**	864	**71**	57	**1,163**	939	**–**	–	**285**	258	**–**	–	**2,469**	2,118
Richard Houghton[10]	**174**	494	**7**	21	**–**	100	**–**	–	**23**	67	**–**	–	**204**	682
Total	**1,255**	1,501	**84**	93	**1,163**	1,039	**–**	–	**321**	349	**1,605**	1	**4,428**	2,983

Non-Executive Directors

	Fees		Taxable benefits[1]		Total	
(£'000)	**2015**	2014	**2015**	2014	**2015**	2014
Alastair Barbour	**95**	95	**21**	13	**116**	108
Kath Cates	**90**	83	**1**	–	**91**	83
Enrico Cucchiani[11]	**70**	6	**6**	–	**76**	6
Edward Lea[12]	**–**	39	**–**	3	**–**	42
Malcolm Le May[13]	**–**	29	**–**	–	**–**	29
Hugh Mitchell	**90**	88	**–**	–	**90**	88
Martin Scicluna[14]	**400**	400	**9**	2	**409**	402
Joseph Streppel	**83**	78	**3**	1	**86**	79
Johanna Waterous	**95**	88	**–**	2	**95**	90
Total	**923**	906	**40**	21	**963**	927

Notes:

1. Taxable benefits: This includes reimbursement in respect of travel and accommodation. Stephen Hester received a car allowance and the use of a car and driver service which totalled £46,024 (2014: £39,999), Scott Egan and Richard Houghton received car allowances, and each of the Executive Directors were provided with medical benefits and life cover. Alastair Barbour received benefits of £20,936 (2014: £12,941) for taxable travel where relief under HMRC rules is not available.
2. Bonus: This comprises awards in respect of performance measures relating solely to the financial year shown, in accordance with the plan described on pages 72 to 73. Half of the bonus shown is awarded in Deferred Bonus Shares which vest three years from the date of grant, and are subject to malus adjustment under the Group's Clawback Policy detailed on page 75.
3. LTIP 2015: Performance-based awards granted under the 2013-15 LTIP cycle will lapse in full on 3 April 2016.
4. LTIP 2014: Performance-based awards granted under the 2012-14 LTIP cycle lapsed in full on 11 May 2015. By exception, Richard Houghton's award, which was awarded following his appointment as a director effective 12 June 2012, lapsed in full on 15 June 2015.
5. Pension-related benefits: These benefits are detailed on page 72.
6. Other remuneration: The 2015 figure for Scott Egan includes compensatory cash and share-based awards made as part of his appointment to replace cash awards forfeited on leaving his previous employer. These awards, detailed on page 73, are subject to repayment terms in the event of resignation or termination for gross misconduct within two years of appointment. The 2014 figure for Adrian Brown represents gains made from RSA's HMRC-approved all-employee share plans.
7. Adrian Brown resigned from the Board effective 16 April 2014 and his employment ended effective 31 August 2014. The salary shown in the table for 2014 is the amount for the time he was a director, i.e. 1 January – 16 April 2014.
8. Scott Egan was appointed as a director effective 1 October 2015 on an annual salary of £525,000. The salary value shown in the table for 2015 is the pro-rated amount based on his appointment date.
9. Stephen Hester was appointed as a director effective 5 February 2014 on an annual salary of £950,000. The salary value shown in the table for 2014 is the pro-rated amount based on his appointment date.
10. Richard Houghton resigned from the Board effective 7 May 2015 and his employment ended effective 10 July 2015. The salary shown in the table is the pro-rated amount for the time he was a director, i.e. 1 January – 7 May 2015. Pay in lieu of notice is not included in this table, and is covered on page 77.
11. Enrico Cucchiani was appointed as a Non-Executive Director effective 1 December 2014.
12. Edward Lea resigned as a Non-Executive Director with effect from 8 May 2014.
13. Malcolm Le May resigned as a Non-Executive Director with effect from 8 May 2014.
14. Martin Scicluna was appointed to the role of Executive Chairman from 13 December 2013 to 4 February 2014. At his request, there was no increase in fee for this period. A £38,533 portion of the above 2014 fees relate to the period when he was Executive Chairman.

Directors' Remuneration Report – continued

4. Components of Executive Directors' remuneration

Base salary

The Committee reviewed the Executive Director salary levels during 2015, and did so referencing a range of information including market data from two benchmarking peer groups of listed international insurers and FTSE companies of a broadly comparable market capitalisation to RSA, excluding banks and heavy industries. It took into account the average reviews applied elsewhere in the Group, including those for employees subject to collective bargaining agreements, and UK inflation figures.

No changes were made as a result of this review, as shown below.

Director	Annual base salary effective 1 April 2015	% change
Stephen Hester	£950,000	0%

Notes:
1. Scott Egan was appointed as a director effective 1 October 2015 on an annual salary of £525,000, which will first be reviewed in 2017.
2. Richard Houghton's salary effective 1 April 2015 remained unchanged at £494,400.

Employment benefits

The Executive Directors received a range of employment benefits during 2015, including car, medical benefits and life cover, and the value of these is noted in the table on page 71.

Pension provision (audited)

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

- Scott Egan joined the RSA Pension Scheme following his appointment in October 2015, and is eligible to receive an employer pension contribution of 15% of base salary.
- Stephen Hester received a taxable cash allowance of 30% of base salary.
- Richard Houghton received a taxable cash allowance of 13.18% of base salary for the period he was employed during 2015.

The aggregate value paid by the Company into the RSA Pension Scheme (a defined contribution plan) for the Executive Directors in 2015 was £13,125 (2014: £11,124).

Annual Bonus Plan (audited)

For the 2015 financial year, the Executive Directors' Annual Bonus Plan consisted of financial and business targets aligned to the Group's operational plans. These included: Group underlying Return on Tangible Equity (ROTE), Group underlying Profit before Tax (PBT), Group Combined Operating Ratio (COR), a Business Review Scorecard and role-specific personal objectives. Overall, these targets required demanding business improvements from the prior year.

The maximum bonus opportunity was 160% of salary, of which half of any award is deferred into RSA shares for three years. Bonus awards are subject to malus and clawback provisions under the Group's Clawback Policy, as detailed on page 75.

In determining 2015 bonus awards under this Plan, the Committee considered how goals had been met, ensuring that performance also took account of key risk factors.

Financial performance (40% weighting – achieved 19.5%)

As shown in the following table, RSA's financial performance for each metric was around the level targeted, leading to an outcome under this element of 19.5% against a possible maximum of 40%.

Business Review performance (30% weighting – achieved 27%)

The Business Review Scorecard offered an opportunity of up to 30% of the overall award and is designed to capture progress against underlying improvements targeted by the turnaround plan, including restructuring actions. The Committee assessed performance taking into account capital, risk and disposal achievements together with the results of actions aimed at delivering the business turnaround targets.

Performance under the Business Review Scorecard was assessed to have been at or above that targeted across all of these areas. Outperformance was noted in much of the transformation. Divestments were planned and implemented well with execution risks managed, and the Group benefitting from the resulting focus. Capital ratios were above target and expense reduction exceeded Plan. Outcomes on the Solvency II internal model approval and UK pension scheme agreements were also positive. Current year underwriting profits increased to record levels and new reinsurance protection worked well.

The Committee was of the view that overall strong progress has been made, and as a result assessed an outcome of 27% out of a possible score of 30% in this category.

Personal element (30% weighting – achieved 30%)

This element focuses on personal performance versus the priorities set by the Board for the Group Chief Executive in 2015; namely driving strategic refocus and disposals, capital strength and risk control, stakeholder engagement, customer focus and Executive team development.

The Company as a whole met its underlying profitability targets for the year, as reflected in the financial element of the bonus, and performance was much improved on recent years. The Chief Executive's leadership was central to the level of outperformance seen in the business across the full agenda targeted. It included driving the evolution and implementation of the strategy and action plans, strengthening customer franchises with a range of product and service initiatives and internally building the performance culture. The unsolicited takeover approach by Zurich was also testing and the Group Chief Executive played an important role in its handling and keeping disruption from destabilising Company momentum.

Taking all of the above into account, and the personal leadership strengths required, the Committee determined that Stephen Hester would receive an award of 30% out of 30% for this element.

As a consequence, Mr Hester was awarded a bonus of 76.5% of the maximum available opportunity, being 122% of his annual base salary.

Overview of bonus outcome

The table below summarises the 2015 annual bonus outcome for Stephen Hester.

Bonus 2015 performance measures		Target	Actual	Weighting (% of maximum)	Stephen Hester award (% of maximum)
Group underlying ROTE		9.9%	9.7%	20%	9.3%
Group underlying PBT		£412m	£417m	10%	5.6%
Group COR		96.5%	96.9%	10%	4.6%
Business Review Scorecard	– *Capital metrics*:				
	IGD coverage ratio[1]	≥1.75 times	>2.1 times	30%	27%
	ECA coverage ratio[1]	≥1.15 times	>1.4 times		
	TNAV:NWP	≥35%	42%		
	S&P credit rating	A– stable	A stable		
	– *Group controllable expense ratio:*	25.6%	25.6%[2]		
	– *Group controllable expenses:*	£1,808m	£1,767m[2]		
	– *Portfolio actions and strategic plan initiatives:*	See narrative	See narrative		
Personal Scorecard			See narrative	30%	30%
Total (% of maximum)				100%	76.5%
Total (% of annual base salary)[3]					122.4%
Bonus receivable[4]					£1,162,800

Notes:
1. These measures are referenced in the capital disclosure on page 122 to 123.
2. Adjusted for timing of business disposals.
3. Stephen Hester's bonus has been determined by the Committee relative to his gross annual basic salary of £950,000.
4. Half of the bonus shown is awarded in Deferred Bonus Shares. The shares vest three years from the date of grant, and are subject to malus adjustment under the Group's Clawback Policy detailed on page 75.
5. The Committee is mindful of guidance published by investor representative bodies around enhancing transparency, and aligned to this, further information on the targets will be published in the 2016 report. This content provides information on the Group's planning process, and is therefore particularly commercially sensitive during the business transformation.

Group Chief Financial Officer compensatory award

On leaving his previous employer, Scott Egan forfeited a number of cash-based awards. The Committee carefully reviewed these awards and determined compensatory awards should be made in line with the principles outlined in the Remuneration Policy. The following awards, which consist of a combination of cash and shares, have been made and are included in the 'single figure' remuneration table for 2015 on page 71:

- Upon appointment, a cash payment of £1,104,647 was made to replace cash payments forfeited by Mr Egan or paid back by him to his previous employer upon resignation.
- Mr Egan also forfeited a cash bonus from his previous employer in respect of 2015, which has been replaced by a compensatory award payable in early 2016, in line with the payment schedule of the original forfeited award. The payment will be 50% in cash (£250,000) and 50% in restricted shares (valued at £250,000). In line with the Policy, the forfeited cash bonus was bought out partially with shares in order to give Mr Egan an early stake in RSA.

These awards are subject to repayment terms in the event of resignation or termination for gross misconduct within two years of appointment. Mr Egan must meet his RSA shareholding requirement of 150% of salary prior to the sale of any shares, excluding those sold to cover statutory deductions. Mr Egan will not receive an RSA Annual Bonus award in respect of the period worked in 2015.

Directors' Remuneration Report – continued

Long-term incentives – awards vesting from 2013–15 cycle (audited)

Conditional long-term incentive awards were made to Executive Directors in the 2013–15 cycle in the form of Performance Shares. Under the LTIP arrangements operated at that time, Executive Directors could also receive Matching Shares for each share deferred through the 2012 Annual Bonus Plan, via both compulsory and voluntary deferral.

Performance and Matching Shares will lapse in full in 2016, as the Relative TSR and Group underlying ROE conditions attached to these awards were not achieved. The Company's TSR was less than the unweighted index of comparators, and the three-year average Group underlying ROE over the performance period was 7.3% (compared to a 9–14% target range).[1]

The awards were granted prior to the appointment of the current Executive Directors, and neither of them have awards in this cycle.

Note:
1. The Relative TSR threshold target (25% vesting) is equal to the unweighted index of comparators which includes: ACE, Admiral, Allianz, Amlin, Aviva, Direct Line, Gjensidige Forsikring, Hiscox, Intact, Mapfre, QBE, Topdanmark, Tryg and Zurich. The maximum target (100% vesting) is to outperform the index by at least 7% per annum (22.5% compound over three years) or to exceed the TSR of the highest performing company in the index. Catlin had originally been included in the index, however it was delisted during the performance period and so the Committee determined to exclude it from the calculation. The Group underlying ROE threshold target (25% vesting) is 9% and maximum target (100% vesting) is 14%, measured as a three-year average over the performance period.

Long-term incentives – awards granted in 2015 (audited)

A conditional long-term incentive award was made to the Group Chief Executive on 7 April 2015 under the Performance Share Plan (PSP), which was approved by shareholders on 9 May 2014. These Performance Share awards will vest in 2018, subject to the satisfaction of the plan's performance conditions based on Group underlying ROTE, relative Total Shareholder Return and a Business Review Scorecard. The Scorecard measures a range of indicators on an underlying basis, and includes: growth in Tangible Net Asset Value per Share (TNAV), cumulative earnings, controllable expenses and a range of capital strength metrics including the ratio of Tangible Net Asset Value to Net Written Premium (TNAV:NWP).

The targets for the performance measures are shown in the following table. Achievement against the Business Review Scorecard will be evaluated using a performance framework whereby each metric will be reviewed against its target, and judgement in the round used to determine the level of vesting, taking into account underlying business performance indicators and any material risk items. The specific targets cannot be disclosed prospectively for commercial reasons, including price sensitivity. A performance narrative will be given to summarise the level of vesting on the Business Review Scorecard once the performance conditions have been tested.

LTIP performance measures 2015–17	Weighting	Threshold target: 25% vesting	Maximum target: 100% vesting
Relative TSR[1]	⅓	RSA's TSR is equal to the unweighted index of comparators	RSA's TSR outperforms the unweighted index of comparators by at least 7% per annum (22.5% compound over three years) or exceeds the TSR of the highest performing company in the index
Group underlying ROTE[2]	⅓	11%	16%
Business Review Scorecard	⅓	Commercially sensitive	Commercially sensitive

Notes:
1. Relative TSR index of comparators includes: ACE, Admiral, Allianz, Aviva, Direct Line, Gjensidige Forsikring, Hiscox, Intact, Mapfre, QBE, Topdanmark, Tryg and Zurich. A straight-line calculation is applied to determine the portion of awards that vest for performance between the threshold and maximum targets. Amlin and Catlin were also originally included in the index, however they have since been delisted and the Committee will ratify their exclusion from the TSR index at the end of the performance period.
2. Group underlying ROTE will be calculated on a three-year average basis. A straight-line calculation is applied to determine the portion of awards that vest for performance between threshold and on-target, and between on-target and maximum. The average required for on-target vesting (62.5% vesting) is less than the mid-point of the 11–16% range and is considered commercially sensitive because it is set in line with, and therefore signals, the Group's forward plan for the period. Disclosure will be provided retrospectively following the end of the performance period.

As disclosed in the last year's Directors' Remuneration Report, Stephen Hester's award in the 2015–17 cycle was for 300% of salary at maximum vesting, in view of his criticality to the turnaround. The awards granted are set out in the table below:

	Performance Shares[1, 2]		
Director	Basis of award	Number of shares[3]	Face value[4]
Stephen Hester	300% of salary	669,202	£2,850,000

Notes:
1. The performance measures are Group underlying ROTE, relative TSR and a Business Review Scorecard (⅓ weighting each).
2. The performance period is three years and ends on 31 December 2017.
3. If threshold performance is achieved, 25% of the number of shares shown will vest.
4. The face value of the award is calculated as the maximum number of shares that would vest if all performance measures and targets are met, multiplied by the mid-market closing price of an RSA ordinary share averaged over the five business days preceding the date of grant (7 April 2015), of £4.2588.

Clawback Policy

A Clawback Policy was introduced in 2013 regarding variable remuneration and is reviewed annually, as set out in the Remuneration Policy on pages 84 and 86.

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

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

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

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

Directors' Remuneration Report – continued

5. Directors' shareholding (audited)

Executive Directors' shareholding

RSA believes it is in shareholders' interests for its executives to hold shares in the Company. Under the guidelines applicable during 2015, executives are expected to retain vested shares arising from the Company's share plans, and so build up a minimum shareholding over a five-year period and maintain it thereafter. No shares are to be sold until the holding level is reached, except where required to cover statutory deductions. Unvested share awards and those otherwise subject to forfeiture are excluded when calculating an executive's current shareholding level.

The table below shows the Executive Directors' shareholding and their unvested scheme interests in the Company's incentive plans. Stephen Hester joined RSA in February 2014 and continues to build up his shareholding to the target level shown below within the allotted five-year period. Scott Egan joined RSA in October 2015 and will be granted share awards in 2016 as detailed on page 73 and page 81, and start to build his shareholding to the target level shown below.

	Shares owned outright[1]		Unvested scheme interests held at 31 December 2015		Required shareholding level			
Director	Shares held at 1 January 2015	Shares held at 31 December 2015	Share awards subject to performance conditions[2]	Share awards not subject to performance conditions[3]	Shares counting towards shareholding at 31 December 2015[4]	Valuation[5]	Shareholding level to be reached (% of salary)	Shareholding level at 31 December 2015 (% of salary)[6]
Scott Egan[7]	–	–	–	–	–	£0	150%	0%
Stephen Hester	21,500	21,500	1,254,633	110,247	21,500	£91,698	300%	10%
Richard Houghton[8]	49,419	49,419	612,849	37,402	58,861	£251,513	150%	51%

Notes:
1. Interests of directors in ordinary shares of £1.00 each of the Company, including those of connected persons. As at 23 February 2016, the interests in ordinary shares of Stephen Hester and Scott Egan have not changed since 31 December 2015.
2. Includes Performance and Matching Shares held under the legacy Long-term Incentive Plan 2006, and Performance Shares held under the Performance Share Plan 2014, detailed on page 77.
3. Includes Voluntarily Invested Deferred Shares and Compulsory Deferred Shares held under the legacy Long-term Incentive Plan 2006, and Deferred Bonus Shares held under the Performance Share Plan 2014, detailed on page 77.
4. Includes shares owned outright, and additionally in the case of Richard Houghton, his beneficial interest as at 7 May 2015 in 9,442 Voluntarily Invested Deferred Shares held under the legacy Long-term Incentive Plan 2006.
5. The valuation is against the mid-market closing price of an RSA ordinary share as at 31 December 2015 of £4.265 per share.
6. The gross annual base salary as at 31 December 2015.
7. Scott Egan was appointed as a director effective 1 October 2015. The table shows shares held at the date of his appointment and not 1 January 2015.
8. Richard Houghton resigned from the Board effective 7 May 2015. Shares and scheme interests held are shown as at that date, and not 31 December 2015. The shareholding valuation is based on his gross annual base salary and the mid-market closing price of an RSA ordinary share at 7 May 2015 of £4.273.
9. The directors had no share options that vested and remained unexercised, or were exercised in the year.
10. 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.

Non-Executive Directors' shareholding

Director[1]	Shares held at 1 January 2015	Shares held at 31 December 2015[2]
Alastair Barbour	12,039	12,039
Kath Cates	4,124	4,124
Enrico Cucchiani	–	–
Hugh Mitchell	8,552	8,552
Martin Scicluna	14,303	14,303
Joseph Streppel	4,125	4,125
Johanna Waterous	12,419	12,419

Notes:
1. Interests of directors in ordinary shares of £1.00 each of the Company, including those of connected persons.
2. As at 23 February 2016, the interests in ordinary shares of the current Non-Executive Directors have not changed since 31 December 2015.

Scheme interests held

Details of Executive Directors' existing awards in the Company's share plans for the financial year are set out in the following tables.

Performance Share Plan 2014 (PSP)

The directors' interests in the new long-term incentive plan, the PSP, were as follows:

	Share awards held at 1 January 2015	Share awards granted during the year[1]	Share awards vested during the year	Share awards lapsed during the year	Share awards held at 31 December 2015[2]
Stephen Hester					
Performance Shares[3]	585,431	669,202	–	–	1,254,633
Deferred Bonus Shares[4]	–	110,247	–	–	110,247
Richard Houghton					
Performance Shares[3]	233,581	–	–	–	233,581
Deferred Bonus Shares[4]	–	11,740	–	–	11,740

Notes:
1. The Company granted conditional awards over ordinary shares under the PSP at nil cost. The market price of ordinary shares on 7 April 2015, the date on which PSP interests were granted during the year, was £4.2588.
2. Richard Houghton's scheme interests are shown as at 7 May 2015 (the effective date of his resignation from the Board) and not 31 December 2015. A maximum of 88,761 of the 233,581 Performance Shares shown above can vest, as time-proration was subsequently applied to these awards based on the date his employment ended, in accordance with the Remuneration Policy and his good leaver status agreed by the Committee. Further prorating will apply if the performance conditions attached to these awards are not met in full.
3. Performance Shares granted in 2014 and 2015 have performance conditions of Group underlying ROTE, relative TSR and Business Review Scorecard (⅓ weighting each).
4. Deferred Bonus Shares vest three years from the date of grant, and are subject to malus adjustment under the Group's Clawback Policy as detailed on page 75.
5. The date by which performance conditions for PSP awards granted in 2014 must be met is 31 December 2016 (except the relative TSR condition, the performance period for which began four weeks prior to the grant date and will end on 31 March 2017). The date by which performance conditions for PSP awards granted in 2015 must be met is 31 December 2017.
6. No other directors of the Company held long-term incentive scheme interests in the PSP during the year.

Long-term Incentive Plan 2006 (LTIP)

The directors' interests in the LTIP were as follows:

	Share awards held at 1 January 2015	Share awards granted during the year[1]	Share awards vested during the year	Share awards lapsed during the year	Share awards held at 7 May 2015[2]
Richard Houghton					
Voluntarily Invested Deferred Shares[3]	9,442	–	–	–	9,442
Compulsory Deferred Shares[4]	16,220	–	–	–	16,220
Voluntarily Invested Deferred Matching Shares[5]	44,166	–	–	–	44,166
Compulsory Deferred Matching Shares[6]	32,440	–	–	–	32,440
Performance Shares[6]	302,662	–	–	–	302,662

Notes:
1. No long-term incentive plan interests were granted under the LTIP during 2015.
2. Richard Houghton's scheme interests are shown as at 7 May 2015 (the effective date of his resignation from the Board) and not 31 December 2015. None of the Performance or Matching Shares shown above will vest (Performance Shares granted in 2012 lapsed on 15 June 2015 as their performance conditions were not met. Time-proration was applied to performance-linked awards granted in 2013 based on his employment end date, and the outstanding awards will lapse in 2016 as their performance conditions were not met, as noted on page 74). Compulsory Deferred Shares will vest in line with the normal vesting timetable, in accordance with his good leaver status.
3. Voluntarily Invested Deferred Shares were purchased on behalf of each participant using part of the net annual bonus paid to them and are held in trust for three years. They are not at risk of forfeiture and may be withdrawn from the Trust at any time but any associated Matching Shares lapse if this occurs.
4. Compulsory Deferred Shares have a service condition of three years from date of grant.
5. Voluntarily Invested Deferred Matching Shares granted in 2012 and 2013 have a performance condition of Group underlying ROE (100% weighting).
6. Compulsory Deferred Matching Shares and Performance Shares granted in 2012 and 2013 have performance conditions of Group underlying ROE (70% weighting) and relative TSR (30% weighting).
7. The date by which performance conditions for LTIP awards were to be met is as follows: 2012 awards by 31 December 2014 and 2013 awards by 31 December 2015.
8. No other directors of the Company held long-term incentive scheme interests in the LTIP Plan during 2015.

6. Payments to directors for loss of office (audited)

There were no payments to directors for loss of office in 2015, other than those already disclosed on page 93 of last year's report in respect of Richard Houghton. These included: Mr Houghton's contractual salary and benefits (which he continued to receive after stepping down from the Board on 7 May 2015 until his employment ended effective 10 July 2015), and pay in lieu of notice (at £48,319 per month covering salary and benefits, which he received from the date his employment ended to 31 December 2015, and he continued to receive until 25 February 2016). In accordance with the Remuneration Policy and as disclosed last year, good leaver status was agreed by the Committee. Time pro-ration has been applied to his performance-linked share awards based on his employment end date. Unvested share awards will vest in line with the normal vesting timetable, with further pro-rating being applied to performance-linked awards if their performance conditions are not met in full.

7. Payments to former directors (audited)

No payments were made to former directors in 2015, other than those disclosed in the Payments to directors for loss of office section.

Directors' Remuneration Report – continued

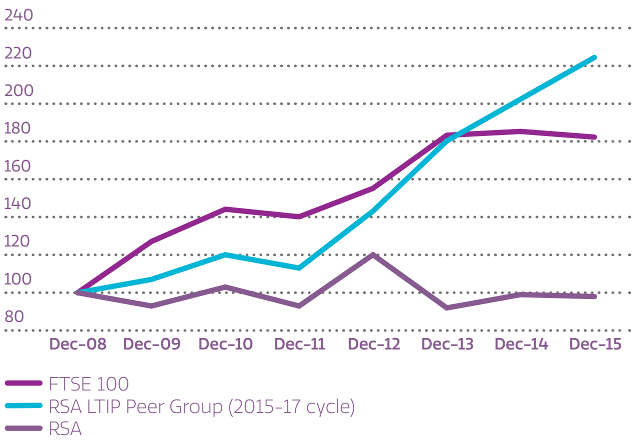
8. Historical TSR performance and executive remuneration

The graph shows the TSR of the Group with reference to the FTSE 100 Index and the relative TSR peer group used as an LTIP performance measure for the 2015–17 cycle, the constituents of which are noted on page 74.

The FTSE 100 Index is included as it comprises the 100 most highly capitalised companies in the UK market, of which RSA was a member in 2015.

RSA's TSR performance relative to the indices is shown over the seven years from 31 December 2008 to 31 December 2015. The graph reflects the change in value of ordinary shares in a company over time, as represented by a hypothetical £100 holding in the shares. Any distribution of dividends is included. Data was provided by Datastream.

Value of hypothetical £100 holding



The table below shows the total remuneration for the incumbents appointed as the most senior Executive Director over the past seven years. The percentages show the proportion of bonuses and LTIPs that were received. Bonuses include both cash and deferred shares components.

Director		Single figure of total remuneration (£'000)	Annual bonus award rates (% of maximum)	LTIP vesting rates (% of maximum)
2015	Stephen Hester[1]	2,469	77%	n/a
2014	Stephen Hester[1 2]	2,118	68%	n/a
	Martin Scicluna[3]	39	n/a	n/a
2013	Martin Scicluna[3]	21	n/a	n/a
	Simon Lee[4]	1,011	0%	0%
2012	Simon Lee	2,164	50%	34%
2011	Simon Lee[5]	311	59%	34%
	Andy Haste[6]	2,488	58%	31%
2010	Andy Haste	4,024	73%	66%
2009	Andy Haste	4,451	89%	100%

Notes:
1. Stephen Hester did not have any long-term incentive awards in the 2013-15 and 2012-14 cycles.
2. Stephen Hester was appointed Group Chief Executive effective 5 February 2014. The single figure of total remuneration for 2014 above is pro-rated for his time in the position.
3. Martin Scicluna was appointed Executive Chairman effective 13 December 2013, until 4 February 2014. The single figures of total remuneration for 2013 and 2014 above are pro-rated for his time in the position.
4. Simon Lee resigned as Group Chief Executive and his employment ended on 12 December 2013. He did not receive a bonus in respect of the 2013 financial year, and his awards in the 2011–13 LTIP cycle lapsed on that date.
5. Simon Lee became Group Chief Executive effective 1 November 2011. The single figure of total remuneration above is pro-rated for his time in the position.
6. Andy Haste resigned as Group Chief Executive effective 31 October 2011 and his employment ended 31 December 2011. The single figure of total remuneration above is pro-rated for his time in the position.

9. Percentage change in remuneration

The table below sets out the percentage change in salary, benefits and bonus for the individual undertaking the most senior Executive Director role in the Company compared with UK employees on average between 2014 and 2015. The UK population was selected for this comparison because pay changes within RSA vary significantly, according to local market factors. The Group Chief Executive's role has a Group-wide remit, but is located in the UK.

The figures for the most senior Executive Director in 2015 include Stephen Hester's remuneration for a full year, however the figures for 2014 include his remuneration for a portion of the year (as he was appointed in 2014), and Martin Scicluna for the period he was Executive Chairman. Stephen Hester received no salary increase in 2014 or 2015.

	Salary and Fees	Taxable benefits	Bonus
All employees	1.6%	1.9%	30%
Most senior Executive Director[1]	5%	26%	24%

Note:
1. The figures for 2014 include Stephen Hester from the date of his appointment as Group Chief Executive (5 February 2014) and Martin Scicluna for the period he was Executive Chairman (1 January to 4 February 2014).

10. Relative importance of spend on pay

The table below shows the all-employee pay spend and returns to shareholders by way of dividends for 2015. Figures from 2014 are provided for comparison. The employee pay data covers the Group's employees globally, and therefore includes the impact of exchange rate changes. Levels of inflation vary across the different countries in which the Group operates and, therefore, salary changes will be reflective of local market conditions.

(£m)	2014	2015	% difference from prior year
Total Spend on Employee Pay[1]	1,101	948	-14%
Total Distributions to Shareholders[2]	9	65	622%

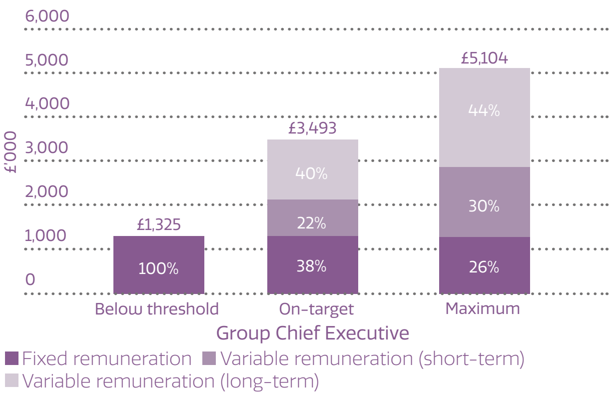
Notes:
1. Includes salaries, social security costs, pension costs and share-based payments as shown in the notes to the Financial Statements on page 133.
2. Includes the figures as shown in the notes to the Financial Statements on page 137.

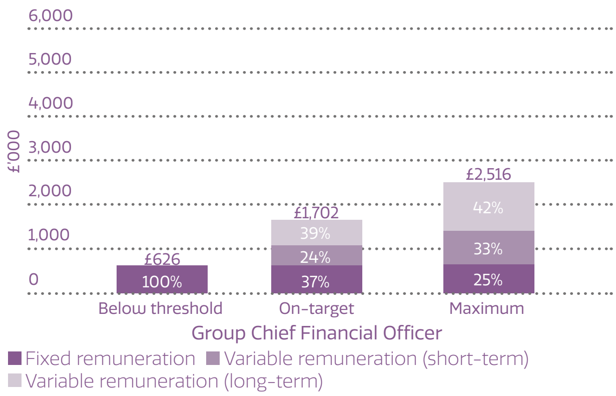
11. Implementation of Remuneration Policy in 2016

This section outlines decisions taken by the Committee in respect of the 2016 financial year, and how the Committee intends to implement the Directors' Remuneration Policy during 2016.

RSA has a pay-for-performance culture, whereby remuneration is closely linked to the performance of both the business and the individual. Executive Directors' reward opportunity contains a balance of fixed and variable elements. The Committee's aim is that superior levels of remuneration will only be paid in return for delivering superior levels of performance. The variable element is fully flexible such that no award is guaranteed. The charts below show how much the Executive Directors could earn for the 2016 financial year based on the application of the Remuneration Policy (detailed on pages 83 to 90). Their remuneration potential changes according to varying levels of performance achievement.

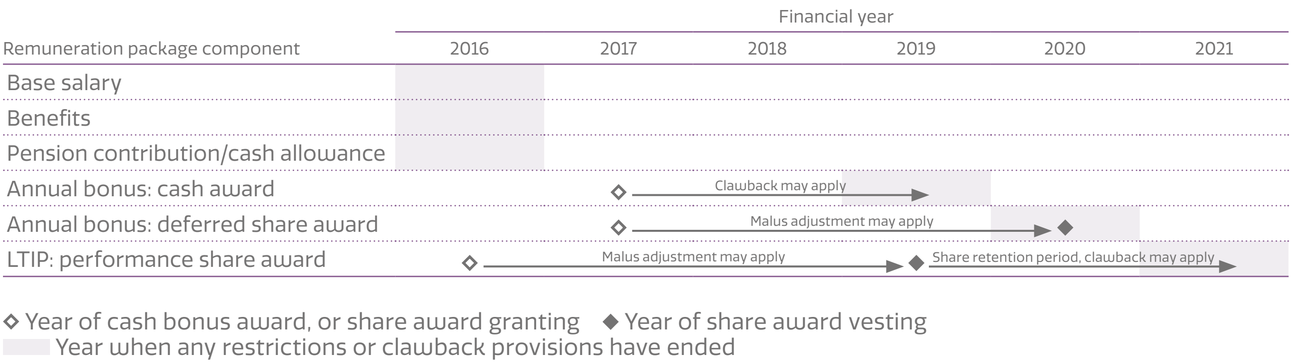
Illustrations of the application of the Remuneration Policy





Notes:
1. The 'below threshold' scenario shows the minimum remuneration receivable. It includes the value of base salary and pension for 2016, and the value of benefits based on the single total figure of remuneration for 2015. No bonus is awarded and no LTIP vesting occurs.
2. The 'on-target' scenario shows the remuneration receivable with a bonus award at half of the maximum opportunity (i.e. 80% of salary) and LTIP vesting at 62.5% (i.e. half-way between threshold (25% vesting) and maximum (100% vesting)). The LTIP maximum award level is taken to be 230% of salary for the Group Chief Executive, and 200% of salary for the Group Chief Financial Officer.
3. The 'maximum' scenario shows the remuneration receivable with both the Annual Bonus Plan and the LTIP paying out in full (i.e. 160% of salary and 230%/200% of salary, respectively).

The remuneration structure is intended to promote the long-term interests of the Company and its shareholders. The table below shows when each component of the Executive Directors' remuneration package, as set out in the charts above, would be delivered to them once any performance conditions or other restrictions have ended (as noted by the shading). These each relate to the 2016 financial year and, in the case of long-term incentive performance share awards, for awards vesting in 2019.



Directors' Remuneration Report – continued

Base salary, benefits and pension

The Committee reviewed the Group Chief Executive's salary and has determined that a 2% increase will apply from 1 April 2016. This level of increase is in line with those for other UK-based employees this year. In respect of benefits and pension, the Policy will continue to be implemented the same way as it was at the end of 2015.

Director	Annual base salary effective 1 April 2016	% change
Scott Egan[1]	£525,000	0%
Stephen Hester	£969,000	2%

Note:
1. In accordance with his appointment terms, Scott Egan's salary will first be reviewed effective 1 April 2017.

How will incentives be aligned to the business strategy in 2016?

The table below shows how the business strategy, and the key performance indicators which underpin it, are reflected in the Annual Bonus Plan and long-term incentive performance measures for Executive Directors in 2016:

Strategic priorities	Key performance indicators	Annual Bonus Plan 2016	Long-term incentive cycle 2016-18
Business Review: · Strategic focus, · Capital and balance sheet strength, · Performance improvement	TNAV, TNAV:NWP, Capital surplus, Attritional loss ratio, Controllable expenses	*Business Review Scorecard:* Capital metrics including TNAV:NWP and Solvency II coverage ratio; Management actions including controllable expenses, disposals, risk items, attritional loss ratio and strategic plan initiatives	*Business Review Scorecard:* Capital metrics including TNAV:NWP and Solvency II coverage ratio, Controllable expenses, Attritional loss ratio, Growth in TNAV per share, Cumulative earnings
Profitability	Group underlying PBT, Group COR	Group underlying PBT, Group COR	
Shareholder Value	Group underlying ROTE	Group underlying ROTE	Group underlying ROTE (three-year average), Relative TSR

Annual Bonus Plan 2016

As noted in the Committee Chairman's letter on pages 66 to 67, the Annual Bonus Plan will follow a similar design to 2015. Its performance measures are aligned with the core priorities for focus in 2016. The Executive Directors will be expected to deliver against stretching targets, which are geared towards making continued performance improvement. They are targeted against the performance of the entire Group, taking into account their contribution thereto.

The Business Review Scorecard component includes capital strength metrics and strategic management actions required to deliver this stage of the turnaround. The Personal Scorecard consists of 'SMART' objectives, which are aligned to the areas of: financials, strategy, risk management, customer and people.

The bonus opportunity remains unchanged at 80% of salary for on-target achievement, rising to a maximum of 160% of salary. Threshold performance represents 16% of salary (i.e. 10% of the maximum opportunity). Half of the total bonus will be awarded in cash where clawback can apply, the balance is deferred into shares for a three-year period where malus adjustment can apply.

The Committee will assess performance for 2016 once the financial year has ended, taking into account material risk factors. All of the bonus targets are considered to be commercially sensitive because they signal the Group's forward plan for the year, and therefore they are not provided in this document. Disclosure will be provided in the 2016 Directors' Remuneration Report, to the extent that the targets do not remain commercially sensitive.

The table below sets out the structure of the Executive Directors' bonus plan for 2016.

Bonus performance measures	Weighting (% of bonus)	Maximum opportunity (% of salary)
Group underlying Return on Tangible Equity (ROTE)	20%	32%
Group underlying Profit before Tax (PBT)	10%	16%
Group COR	10%	16%
Business Review Scorecard	30%	48%
Personal Scorecard	30%	48%
Totals	100%	160%

Long-term Incentive Plan 2016-18

The RSA Performance Share Plan (PSP) was approved by shareholders at the AGM on 9 May 2014. The plan directly supports the building of shareholder value by targeting Group underlying Return on Tangible Equity (ROTE), relative Total Shareholder Return (TSR) and a Business Review Scorecard. The Scorecard measures a range of indicators on an underlying basis, and includes: growth in Tangible Net Asset Value per Share (TNAV), cumulative earnings, controllable expenses, attritional loss ratio and a range of capital strength metrics including the ratio of TNAV:NWP and Solvency II coverage ratio.

For the 2016 grant, performance measures will be assessed against a performance period of 1 January 2016 to 31 December 2018, taking into account underlying business performance and material risk factors.

To maintain an appropriate degree of stretch in the targets, the three-year average required for an on-target level of vesting on the Group underlying ROTE element is set higher up the 11–16% target range compared to the 2015–17 cycle. This ensures account is taken of the turnaround progress made in the previous year. Underlying ROTE is defined in the Key Performance Indicator section on page 22. It will be measured on a simple average basis over the performance period.

The Business Review Scorecard will be evaluated using a performance framework whereby each metric will be reviewed against its target, together with any other aspects connected to the business turnaround and judgement in the round used by the Committee to determine the level of vesting. The specific targets cannot be disclosed prospectively for commercial reasons, including price sensitivity. A performance narrative will be given to summarise the level of vesting on the Business Review Scorecard once the performance conditions have been tested.

Stephen Hester's maximum LTIP opportunity in the 2016 grant will reduce to 230% of salary at maximum vesting compared to earlier years, which is the usual level of award for the Group Chief Executive. Scott Egan's LTIP opportunity in 2016 will be 200% of salary at maximum vesting. Executive Directors must retain all vested shares arising from this incentive plan for two years post-vesting (except those sold to cover statutory deductions), and they are subject to the Group's Clawback Policy. The table below summarises the LTIP's structure.

LTIP performance measures 2016–18	Weighting	Threshold target: 25% vesting	Maximum target: 100% vesting
Relative TSR[1]	⅓	RSA's TSR is equal to the unweighted index of comparators	RSA's TSR outperforms the unweighted index of comparators by at least 7% per annum (22.5% compound over three years) or exceeds the TSR of the highest performing company in the index
Group underlying ROTE[2]	⅓	11%	16%
Business Review Scorecard	⅓	Commercially sensitive	Commercially sensitive

Notes:
1. The TSR index of comparators for this cycle includes: ACE, Admiral, Allianz, Aviva, Direct Line, Gjensidige Forsikring, Hiscox, Intact, Mapfre, QBE, Topdanmark, Tryg and Zurich. A straight-line calculation is applied to determine the portion of awards that vest for performance between the threshold and maximum targets.
2. Group underlying ROTE will be calculated on a three-year average basis. A straight-line calculation is applied to determine the portion of awards that vest for performance between threshold and on-target, and between on-target and maximum. The average required for on-target vesting (62.5% vesting) is less than the mid-point of the 11–16% range and is considered commercially sensitive because it is set in line with, and therefore signals, the Group's forward plan for the period. Disclosure will be provided retrospectively following the end of the performance period.

Executive shareholding requirement

The Group Chief Executive's target shareholding requirement is maintained at 300% of salary. The requirement for other Executive Directors remains at 150%.

Non-Executive Directors' fees

Under RSA's Articles, the Non-Executive Directors' remuneration is determined by the Board, within limits set by shareholders. The only exception is in respect of the Chairman, whose terms fall within the remit of the Group Remuneration Committee. The Chairman and Board (minus the Non-Executive Directors) discharges its accountability for setting and managing Non-Executive Directors' remuneration; it will do this when their contractual terms or fee structure are under consideration, which is typically once a year, as noted on pages 88 to 89.

The Committee reviewed the Chairman's fee in accordance with the Remuneration Policy, and did so referencing a range of information including market data on fees taken from the same peer groups used to benchmark the Executive Directors' salaries, UK inflation figures and the average reviews applied elsewhere in the Group. The Chairman's fee will remain unchanged at £400,000 per annum, effective 1 January 2016. Future reviews will take place annually.

The table below shows the Non-Executive Director fee structure. The Company reviewed the Non-Executive Directors' fees during 2015 in accordance with the Remuneration Policy and the fees effective from 1 July 2013 will remain unchanged in 2016.

Fee structure	From 1 July 2013
Base fee	£60,000
Additional fee for chairing committees:	
Group Audit Committee	£20,000
Group Remuneration Committee	£20,000
Group Investment Committee	£12,500
Board Risk Committee	£20,000
Additional fee for Senior Independent Director	£20,000
Additional committee fee[1]	£5,000

Note:
1. A fee of £5,000 applies for each committee a Non-Executive Director is a member of other than as Committee Chairman.

Directors' Remuneration Report – continued

12. Statement of voting at General Meeting

The following voting was recorded at the AGM on 8 May 2015 regarding the resolution to approve the Annual Report on Remuneration:

Resolution	Votes for	Votes against	Total votes cast	Votes witheld[1]
To approve the Directors' Remuneration Report				
Number of votes	477,230,039	91,223,968	568,454,007	155,701,802
% of votes cast	83.95%	16.05%	100%	–

Note:
1. Votes withheld are not included in the calculation as a vote withheld is not a vote in law.

13. Dilution

RSA monitors its dilution levels on a regular basis to ensure that they remain within the headroom limits set by the Investment Association (IA). As at 31 December 2015, the dilution levels were as follows:

Limit	RSA dilution %
10% over 10 years for all share schemes	4.17%
5% over 10 years for discretionary schemes, including long-term incentives	2.76%

14. External directorships

Stephen Hester and Scott Egan do not hold outside directorships of FTSE 100 (or any other listed) companies but would be allowed to have one such appointment, subject to the approval of the Group Nomination and Governance Committee. In accordance with the Remuneration Policy, they would be permitted to retain any fees or expenses arising from such an appointment.

15. Directors' contracts

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

Executive Director	Effective date
Scott Egan	1 October 2015
Stephen Hester	5 February 2014

Non-Executive Directors are issued with an appointment letter. The table below shows when the Non-Executive Directors' appointments became effective and when their terms will expire:

Non-Executive Director	Date of initial appointment	Expiry date of current term
Alastair Barbour	10 October 2011	10 October 2017
Kath Cates	1 September 2013	1 September 2016
Enrico Cucchiani	1 December 2014	1 December 2017
Hugh Mitchell	26 September 2012	26 September 2018
Martin Scicluna	1 January 2013	1 January 2019
Joseph Streppel	3 October 2011	3 October 2017
Johanna Waterous	20 May 2008	20 May 2017

Hugh S Mitchell
Non-Executive Director and Chairman of Group Remuneration Committee
24 February 2016

Appendix – Summary of Remuneration Policy

Introduction

The Remuneration Policy was approved by shareholders on 9 May 2014, and was effective from this date. No changes to the Policy are proposed this year.

The Policy covers how decisions on directors' remuneration will be made at RSA, and the remuneration philosophy and strategy which underpin these decisions.

For ease of reference, the elements of the Policy referenced in Committee activity during 2015 are re-presented on the following pages 84 to 90, including the policy tables and information on directors' contractual terms. The full Policy Report is contained in the 2013 Annual Report and Accounts (pages 71 to 79), which is available at www.rsagroup.com/financial-reporting.

RSA's remuneration philosophy and strategy

RSA's remuneration philosophy and strategy are directly informed by the business strategy, which is set out in the Strategic Report on pages 2 to 39 of this report.

The remuneration principles the Committee follows are:

- Competitive remuneration packages are offered in order to attract, retain and reward the levels of high calibre talent which are essential to RSA's success in today's competitive global insurance market
- Each component of the total remuneration package is simple and transparent, so as to be effective and understood by executives, shareholders and regulators
- A significant proportion of the overall remuneration package takes the form of variable pay, giving focus to stretching short and long-term objectives which directly support the achievement of strategic priorities and are aligned to shareholders' interests
- Executive Directors and other executives are required to hold a significant number of shares in the Company; they are encouraged to act in shareholders' best interests by having a personal investment in RSA
- The remuneration framework is reviewed regularly to ensure that it continues to appropriately reward executives, while protecting shareholders' interests and complying with principles of good risk management and reward governance.
- The tables on the following pages describe how these remuneration principles are applied in practice.

Directors' Remuneration Report – continued

RSA's Remuneration Policy for Executive Directors

Purpose and Strategic Link	Policy for 2014 onwards
Base salary (fixed remuneration) Salaries are aligned to market competitive levels. This is to attract and retain high calibre executives, essential for ensuring RSA's ongoing success.	· Reviewed annually with consideration of factors including: market positioning, internal pay relativities, levels of pay for other RSA employees, inflation, affordability, job scale and content, individual's experience and expertise. Only annual base salary is pensionable. An existing Executive Director's salary may be increased outside of the normal review cycle for material role changes. · Benchmarked referencing competitive practice within two peer groups of listed international insurers and FTSE listed companies of broadly comparable market capitalisation to RSA, excluding banks and 'heavy' industries. · Committee can change the constituents of the benchmark peer group or the basis upon which market information is obtained at its discretion to ensure that the data remains robust and relevant.

Note to table: Policy is consistent for other UK-based managers.

Purpose and Strategic Link	Policy for 2014 onwards
Benefits (fixed remuneration) Employment benefits are provided to support the executive and form part of a market competitive package.	· Directors receive a variety of benefits, some of which are delivered as taxable cash-in-lieu allowances. Benefits cover the areas of: health and well-being, leave of absence, car and business travel, sickness benefit, insurances, professional subscriptions, external advice and employee discounts on certain insurance products. Home to work travel may be covered where appropriate. Tax changes are not compensated. · Assistance would be available under RSA's relocation policy or global mobility policy should this be required. This may include tax equalisation in the event an executive is subsequently appointed to the Board as an expatriate, although the Committee would review if this was necessary long-term. · UK-based Executive Directors can participate in RSA's flexible benefits programme and acquire shares through voluntary HMRC-approved share plans (Sharesave and Sharebuild). They can also claim expenses according to RSA's business and travel policies. · Benefits are determined with reference to market practice within the same benchmark peer groups referenced above. The Committee can also source information from bespoke benefits surveys to aid decision-making. · Committee can amend any benefit or introduce new ones to ensure the remuneration package remains market competitive or to respond to regulatory, legal or best practice changes. Internal appointees to the Board may retain any legacy benefits they receive, at the Committee's discretion, or a buy-out may be made depending on the benefit type and circumstance.

Note to table: Policy is consistent for other UK-based managers and most other UK-based employees.

Purpose and Strategic Link	Policy for 2014 onwards
Pension (fixed remuneration) Pension benefit forms a part of a market competitive package and enables executives to save for retirement.	· Non-contributory pension plan membership or a full/partial cash allowance, where the Director is unable to join the Company's pension plans. The RSA defined benefit pension plan is closed to all new entrants. · Pension cash allowances are paid monthly and are subject to statutory deductions. · Pension cash allowances are set referencing practice within the benchmark peer groups and specialist survey data may also be obtained. The Committee has regard to the market median allowance data. · Committee can adjust the employer pension contribution or cash allowance levels to ensure these remain appropriate and market competitive. It can also agree changes to the terms of the Directors' pension plan(s), as appropriate.

Note to table: Policy is consistent for other UK-based managers.

Purpose and Strategic Link	Policy for 2014 onwards
Annual Bonus Plan (variable remuneration) Supports RSA's short-term objectives. Targets are directly linked to the operational plan and reflect RSA's priority to create shareholder value through sustained growth and profitability, based on its risk profiles. Deferral into shares creates shareholder alignment.	· Overall bonus opportunity is set at a level to be market competitive. Awards are calculated against stretching annual financial and non-financial targets, as well as the performance of the individual executive. Only superior performance will result in a bonus award which is above target. · Fifty per cent of the bonus will be awarded in cash and the remainder will be deferred into a share award for a period of three years. Dividends or equivalents accrue on the deferred shares, and are awarded at the end of the deferral period. The deferred bonus shares are granted under the rules of the LTIP as a conditional award. · Under RSA's Clawback Policy, cash and deferred share awards arising from the Annual Bonus Plan can be reduced or forfeited prior to receipt under a range of circumstances and other sanctions can apply. The policy is noted in detail on page 75. The Committee reviews the policy annually and may amend or update it, as required. · The Executive Directors' maximum bonus opportunity is set having regard to the market median bonus opportunity of its benchmark peer groups. · Committee can exercise discretion to change the bonus measures, how they are weighted, calculated and targeted. It can also change the Directors' bonus awards (both upwards and downwards) once the measures have been tested, provided this is appropriate and in shareholders' interests. The Committee can make such amendments as are necessary to respond to regulatory, legal or accounting requirements. Shareholders will be notified if this has been carried out by disclosure in the relevant Directors' Remuneration Report.

Note to table: All permanent UK-based employees are eligible to receive a bonus award, but share deferral is only operated for senior leaders at RSA.

Opportunity and performance conditions

- Performance conditions do not apply, but business and individual performance may be considered when conducting the review process. Although salaries are reviewed annually, there is no automatic right for any Director to receive a salary increase.
- Other than exceptional circumstances such as a role change, salary increases will not exceed the level of increases applied to other RSA employees.
- The Executive Directors' salaries effective 1 April 2016 are noted on page 80.

- Performance conditions do not apply.
- Benefits are valued and determined with reference to the benchmarking peer groups and other surveys reviewed by the Remuneration Committee. Details of the benefits received by the Executive Directors for 2015 are provided on pages 71 to 72.

- Performance conditions do not apply.
- No Executive Director will receive a pension benefit in excess of 30% of salary.
- The Executive Directors' pension benefits for 2015 are detailed on pages 71 to 72.

- Normal bonus opportunity is 16% of salary at threshold, rising to 80% of salary for on-target performance and 160% of salary at maximum. Additional bonus headroom of up to a further 40% of salary may be available, at the Committee's discretion, to recognise highly exceptional circumstances. Full disclosure will be given if an increased bonus opportunity is applied.
- Performance is measured over one financial year, according to a range of metrics, some of which can be assessed on a scorecard basis, typically including: growth in earnings and profitability, underwriting performance, risk management, expense ratio and cost savings, capital strength, balance sheet strength, customer and employee engagement, and objectives which are personal to the executive. All measures operate independently. Around 70% of the Annual Bonus Plan is weighted according to financial metrics. The performance conditions and targets which were used to inform the 2015 bonus awards are detailed on pages 72 to 73.
- Group Executives are targeted against performance of the entire Group. Executive Directors who have a regional accountability will be targeted against the performance of both the Group and their business areas.
- Targets are set with reference to the Group's operational plan.
- No additional performance conditions apply to the deferred bonus shares once they are granted.

Directors' Remuneration Report – continued

RSA's Remuneration Policy for Executive Directors – continued

Purpose and Strategic Link	Policy for 2014 onwards
Long-term Incentive Plan (LTIP) (variable remuneration) Supports RSA's long-term strategy. Targets reflect RSA's priority to create shareholder value through sustained earnings and share price growth.	· LTIP grants are made annually to a range of senior employees across the Group. For Executive Directors, awards are made in the form of performance shares which vest subject to performance conditions. The LTIP is also used as a vehicle for granting restricted shares which, for an Executive Director would only be used to satisfy a buy-out upon appointment and shares awarded through compulsory bonus deferral. · Performance conditions are reviewed annually. Dividends or equivalents accrue during the performance period and are added to the shares that vest. · A two-year retention period will apply to the Executive Directors' vested shares prohibiting their sale (excluding any sold to satisfy statutory deductions). This policy will cover performance-based awards granted through the LTIP and it will first be implemented for shares vesting in 2017 (i.e. the 2014 grant). The retention period only applies while the Director remains in employment. · Under RSA's Clawback Policy, unvested share awards granted from 2013 onwards can be subject to forfeiture (partial or full) covering a range of circumstances and other sanctions can apply. The policy is noted in detail on page 75. The Committee reviews the policy annually and may amend or update it, as required. · The Executive Directors' maximum award opportunity is set having regard to the market median grant within the benchmark peer groups. · Committee can act within the parameters of the Plan's rules as approved by shareholders and its performance conditions, covering matters such as the measures, calculation methods, performance period, eligibility rules, and general Plan mechanics. The purpose of discretion is to enable the LTIP to be appropriately administered under both normal and exceptional circumstances, e.g. corporate or capital events affecting the Group or a significant number of employees. In addition, the Committee can make such amendments as may be necessary to respond to legal, accounting or regulatory changes. Awards can be reduced or otherwise amended, provided the action is fair and justifiable, for example, to guard against a windfall award or the converse generated by an accounting treatment, to put employees in a neutral position following a capital event. Specifically, under a change of control, performance conditions are tested and awards can vest earlier than scheduled, pro-rated for time and performance, however, the Committee can determine whether a pro-ration for time is applied to other forms of award not subject to performance conditions.

Note to table: The policy applicable to the Executive Directors' long-term incentives is the same for all other participants who receive performance-based awards, with exception to the two-year post-vesting retention period which only covers Executive Directors. LTIP award opportunities vary for individuals below the Board.

Legacy incentives (variable remuneration)	· The Executive Directors will continue to retain any awards granted under RSA's 2006 Long-term Incentive Plan including deferred share awards. No further grants will be made under the 2006 Plan. The Committee can exercise the same discretion as noted in the LTIP section above, as appropriate.
Required shareholding Ensures alignment with shareholders' interests and enables the Director to build a stake in the business.	· Executive Directors must acquire shares in RSA and hold them according to specified levels, expressed as a salary multiple. · Executives have five years in which to build up their holding, commencing from the first date an unconditional share award is made to them as a Director. No shares are to be sold until the holding level is reached, except where required to cover statutory deductions. · The shares which count towards the holding are those held either in their own right or that of immediate family members, and any awarded by RSA which cease to be bound by any performance or service conditions. Vested LTIP shares form part of the holding during the two-year retention period. · For the purpose of reporting to shareholders, the holding levels will be determined using the mid-market closing price of an RSA ordinary share and executives' annual gross basic salaries, both as at 31 December in the reporting year. · The Committee can exercise discretion to temporarily waive or reduce the holding requirement or allow shares to be sold in exceptional business or personal circumstances (e.g. ill-health, divorce, financial hardship).

Note to table: Members of the Executive Team and selected senior leaders across the Group are also required to hold shares in RSA.

Opportunity and performance conditions

- Normal threshold LTIP opportunity is 58% of salary, rising to 144% of salary for on-target performance and 230% of salary at maximum.
- For recruitment purposes, or in highly exceptional circumstances, such as for retention, the Committee may agree to a conditional performance-related award being made up to an additional 170% of salary. This would be considered a 'one-off' award. Where an exceptional award is made, full disclosure will be given on the rationale.
- Conditional awards are determined based on the Director's salary as at the grant date, using the mid-market closing price of an RSA ordinary share, as determined by the Committee in accordance with the Plan's rules.
- The LTIP is intended to support the delivery of the business strategy over a three-year time horizon, and it will therefore include at least two metrics which, typically, will be directly linked to value creation through performance of the Group's share price, earnings/profitability, capital strength and balance-sheet strength. The measures can be assessed on an absolute and/or a relative basis. The metrics can be assessed through a scorecard. The performance conditions are not subject to re-testing.
- The performance period will normally be at least three years for all measures. By exception, the relative TSR metric will be assessed over circa 34 months for the 2014 grant only.
- The performance conditions and targets that will apply to the 2016 grant are detailed on pages 80 to 81.
- Shareholders will be consulted if changes to the measures are proposed by the Committee.

- Performance conditions for any outstanding awards are Group underlying Return on Equity and relative Total Shareholder Return as noted in the Directors' Remuneration Report for 2013 and in this Report on page 77. There is no re-testing of the performance conditions.

- Performance conditions do not apply.
- With effect from 1 January 2014, the shareholding levels to be reached are:

  Group Chief Executive: 300% of salary

  Other Executive Directors: 150% of salary

  The Executive Directors' shareholding levels as at 31 December 2015 are noted on page 76.
- The shareholding levels were determined with reference to the practice across the benchmark peer groups.

Directors' Remuneration Report – continued

RSA's Remuneration Policy for Executive Directors – continued

Purpose and Strategic Link	Policy for 2014 onwards
Appointment treatment Ensures a consistent and transparent approach is taken when appointing executives to the Board, in line with best practice.	· Appointment salaries are set using the same approach as for the Directors' salary reviews, as noted on pages 84 to 85 above. The Committee can exercise discretion on the timing and level of salary reviews for newly appointed Directors reflecting the individual's development and performance in the role. · Benefits, pension and contractual terms will be the same as those offered to current Executive Directors, but the Committee may exercise judgement to flex the package to accommodate any specific terms bespoke to the individual, e.g. related to health, annual leave, pension or insurance benefits. · No Director will be appointed on a notice period exceeding 12 months. · Where the Director is an internal promotion within the Group, he/she may be permitted to retain any legacy benefits or terms at the Committee's discretion. Continuity of service with the Group will be maintained. · Where the Director is an external appointment, the Committee may agree to a compensatory package reflecting incentives or benefits forfeited upon resignation. This will only be permitted on receipt of reasonable evidence of loss. There will be no cash sign-on payments where there is no loss. · Typically, the form of award that is being forfeited (e.g. cash or shares) will be replaced by the same form of award at RSA. Share awards, if they are subject to performance conditions, will generally be compensated by performance share grants in the LTIP. A fair value approach will be applied to determine the value of any compensatory share awards. · As a point of principle, restricted shares will only be used where a performance condition has been achieved or is nearing testing and there is a reasonable expectation of the vesting level. Cash bonuses may be bought out with restricted shares in order to give the Director an early 'stake' in RSA. · Committee can exercise discretion on how to settle any buyout and over what time period to phase any compensatory awards. It will have regard to the performance and vesting periods of the Director's forfeited incentives when determining this.

Note to table: The policy is largely consistent with the approach taken on recruitment remuneration for senior executives across the Group.

Leaver treatment Ensures fair treatment for departing executives while avoiding reward for failure.	· Directors who resign or are dismissed for cause are not eligible for an annual bonus if they have left or are under notice at the date of payment, and forfeit all unvested LTIP awards. They retain any shares they have voluntarily deferred in the LTIP under the 2006 Plan. Directors who resign can retain any compulsory deferred bonus shares awarded from 2014 onwards and any associated dividends or equivalents. · Good leavers, at the Committee's discretion, and normally including such circumstances as planned retirement, death, disability/medical severance, transfers outside of the Group and redundancy, would be eligible for an annual bonus for the proportion of the bonus year served. Deferred bonus shares will normally vest in line with the normal timetable, and LTIPs vest subject to performance and time-prorating. The Committee will make reasonable judgement on determining whether a Director qualifies for good leaver status by reason of retirement, by understanding the individual's intentions post employment termination and taking account of the context of his/her departure from the Group. The Committee has the discretion to make the final bonus award in cash and therefore waive compulsory deferral. · If a loss of office were to occur giving rise to a redundancy payment under prevailing employment legislation, the payment will be calculated taking account of the Director's length of service with the Group and his annual gross basic salary as at his employment termination date. Benefits continue until the employment termination date or the date the contractual notice period expires, whichever is the latter; they can be settled as payments. · The unexpired period of the Director's notice may either be paid or served, including on garden leave; this is regardless of which party has served notice. Generally, in the event of termination and in all cases of termination on performance grounds, the Committee's policy would be to seek and apply mitigation, and payments may be made on a phased basis.

Note to table: The policy is largely consistent with the approach taken for senior executives across the Group.

RSA's Remuneration Policy for Non-Executive Directors

Purpose and Strategic Link	Policy for 2014 onwards
Fees Ensures competitive remuneration is paid to attract high calibre non-executives and recognise their time commitment on the Board.	· Fees are reviewed annually but an annual increase may not always be applied. · When assessing fee levels, account is taken of the required time commitment and the degree of expertise necessary to fulfil the particular role (such as chairing a committee). · The fees are benchmarked using the same peer groups as for the Executive Directors' remuneration, and will have regard to the market median. · Fees are paid in cash, subject to any required statutory deductions which are taken at source. · The Company has the discretion to introduce new fees or change the Non-Executives Directors' terms.
Other key terms of office Reflects current good governance.	· The Chairman is provided with secretarial support and the use of an office. · Non-Executive Directors may claim expenses in line with RSA's business and travel policies; some of these expenses do not qualify for HMRC tax relief. They receive no other benefits, but they can have RSA insurance products at a discount. · As the Non-Executive Directors are not employed by the Company, they are not eligible to receive a bonus award or participate in any of RSA's share plans. · The Non-Executive Directors may hold shares in RSA, but this is a personal matter and is not mandatory.

Opportunity and performance conditions

- If the Director is entered into an RSA LTIP and made an award of performance shares, these will be subject to the same performance conditions and vesting date as applies to other plan participants.
- Under normal circumstances, a new Executive Director will be eligible for incentive awards in line with the usual policy which provides for a maximum bonus of 160% of salary and LTIP award of 230% of salary. However, in exceptional circumstances, a higher bonus opportunity of up to 200% of salary may be agreed and a performance-related LTIP award may be approved by the Committee in the Director's first year of service up to the limit of 400% of salary.
- Restricted shares may be issued and, if so, these will not carry any financial performance conditions, only continued service with the Group or such other conditions as the Committee may agree. Restricted shares will only be awarded to an Executive Director in the case of compensation for loss upon recruitment.
- The Committee may agree to reduce the value of the compensatory award below the anticipated or actual loss value if the compensation is paid at an advanced date (i.e. early settlement).
- Any compensatory award using cash or restricted shares will always carry a service condition and an appropriate repayment schedule to protect shareholders' interests.

- Where good leavers receive pro-rated bonus or LTIP awards, performance is tested in line with the normal performance timetable. The Committee can, however, arrange for the performance conditions to be tested early and for awards to vest sooner than the scheduled date in cases of death in service, medical severance (with discretion) or under a change of control.
- Based on the leaving circumstances and having regard of shareholders' interests, the Committee can exercise discretion to reduce or lapse awards or enable a proportion of awards to be received but only in highly exceptional circumstances and where appropriate. Shareholders will be informed if discretion is applied, and details will be provided wherever possible.
- There are no pre-determined special provisions for Directors with regard to compensation for loss of office. Compensation is based on what would be earned by way of salary and other contractual benefits including pension, over the notice period. In the normal course of events, reasonable professional fees may be paid in relation to a Director's employment termination.
- No payment or compensation for loss of office made to any departing Director will be disclosed if it is less than £10,000 gross.

Opportunity and performance conditions

- Performance conditions do not apply.
- With exception to the Chairman, all Non-Executive Directors receive a base fee, further fees are then paid to reflect membership of more than one committee and for chairing a committee. A separate fee is paid to the Senior Independent Director. The Chairman receives a fee for his role and this is set by the Committee.
- Base fees (including the Chairman's fee) will be kept within the aggregate limit stated in the Group's Articles of Association.
- Details of the Chairman's fee and the Non-Executive Directors' fees earned for 2015 are noted on page 71.

- Performance conditions do not apply.
- Contractual terms are noted on page 90.

Directors' Remuneration Report – continued

Contractual terms

Executive Directors

Each of the Executive Directors is employed under a service agreement, which contains a variety of contractual terms and conditions. Their employment can be terminated by the Company or the individual, by the serving of 12 months' notice. In the case of summary dismissal, no notice will be served by the Company and no compensation will be paid in lieu of it. Notice periods are approved by the Committee and, at its discretion, can be reduced in the event an Executive Director resigns and wishes to leave prior to the end of his contractual notice period.

As with any RSA employee, the Executive Directors may be suspended from their duties in the event of their misconduct or during an investigation which might result in their dismissal.

The Company has the contractual right to place the Executive Directors on garden leave for part, or all, of their notice period. Salary, benefits and pension contributions continue during garden leave, but this time will not count towards the calculation of any annual bonus award that may subsequently be due. Executive Directors do not have terms which provide additional rights or payments to them in the event of a change of control, reconstruction or amalgamation of the Company. Restrictive covenants are in place to help protect RSA's interests should the individual leave the Company for any reason.

Executive Directors may hold one external non-executive position of a FTSE 100 company provided this does not give rise to any conflict of interest, with the approval of the Nomination Committee. If there is any remuneration arising from this role, the individual can retain it.

The date when each Executive Director was appointed to the Board is shown in the table on page 82. Contracts are available for inspection by shareholders at the Company's registered office.

Non-Executive Directors

Non-Executive Directors are not employed by RSA but they are engaged on a contract for services basis. They are issued with an appointment letter for an initial three-year term, which can be extended with the Board's agreement. The term of office can end prior to its expiry with either the individual or the Company serving one month's notice, or three months in respect of the Chairman. No notice will be served by the Company in the event of gross misconduct.

Non-Executive Directors are expected to disclose any conflicts of interest prior to, and during, the course of their tenure. They will not participate in making a decision if any conflict is considered to impact their independence or limit their ability to discharge their duties to shareholders. Since Non-Executive Directors and the Chairman receive only fees and expenses, no individual can have a loss of office payment, although payment in lieu of notice can be made.

The dates when each Non-Executive Director was appointed to the Board and the expiry dates of their current terms of office are shown in the table on page 82. Details of the Non-Executive Directors' fees are noted on page 81. Appointment letters are available for inspection by shareholders at the Company's registered office.

Other Statutory Information

Substantial share interests[1]

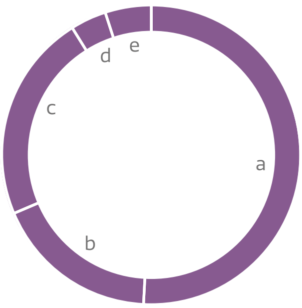
The following table shows the holdings of major shareholders as disclosed to the Company in accordance with the Disclosure and Transparency Rules as at 31 December 2015 and at the date of this Report.

	As at 31 December 2015			At 24 February 2016		
	No of ordinary shares	% of voting rights	Nature of holding	No of ordinary shares	% of voting rights	Nature of holding
Ameriprise Financial, Inc. and its group	75,871,245	7.46%	Direct & Indirect	75,871,245	7.46%	Direct & Indirect
BlackRock Inc	51,091,944	5.02%	Indirect & CFD	54,550,132	5.36%	Indirect & Securities Lending & CFD
Cevian Capital II G.P. Limited	133,068,287	13.12%	Indirect & CFD	133,068,287	13.12%	Indirect & CFD
Franklin Mutual Advisers, LLC[2]	184,256,341	5.01%	Indirect	184,256,341	5.01%	Indirect

Notes:
1. Where the Company has been informed that the threshold for notifications is 5% in accordance with DTR 5.1.5, interests below this threshold are not included in this table.
2. Where the holding had not been re-notified to the Company since the share consolidation became effective on 12 May 2014 the number of ordinary shares shown is as notified pre-consolidation.

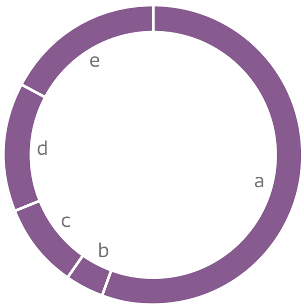
Distribution of shares by geography

- **a.** UK 51.09%
- **b.** Europe 17.54%
- **c.** US and Canada 22.51%
- **d.** Rest of World 4.11%
- **e.** Unanalysed 4.75%



Analysis of Registered Holders

- **a.** Unit Trust/Mutual funds 55.8%
- **b.** Private/Retail 4.0%
- **c.** Pension funds 9.2%
- **d.** Insurance 13.9%
- **e.** Other 17.1%



Registered shareholdings by size as at 31 December 2015

	Number of Holdings	Number of Shares	% of Holdings	% of Shares
1 and 24,999	33,422	30,398,686	98.07	2.99
25,000 and 99,999	263	13,525,882	0.77	1.33
100,000 and 499,999	200	45,256,668	0.59	4.45
500,000 and 999,999	65	47,041,063	0.19	4.63
1,000,000 and 1,999,999	50	70,907,004	0.15	6.97
2,000,000 and 9,999,999,999	78	809,930,539	0.23	79.63
Total	34,078	1,017,059,842	100	100