RSA

# UNDERWRITING PROGRESS

## ANNUAL REVIEW AND SUMMARY FINANCIAL STATEMENTS 2011

# 2011 HIGHLIGHTS

FINANCIAL HIGHLIGHTS

Welcome to our Annual Review and Summary Financial Statements 2011. We are a leading general insurer operating in 33 countries and providing products and services in around 140 countries.

We have a strong portfolio of businesses combining

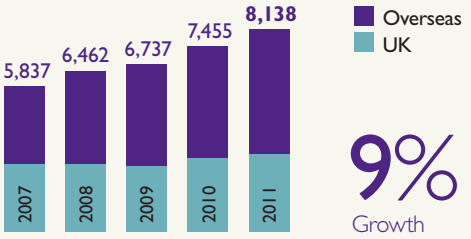
- Leading positions in our competitive domestic UK market
- Strong operations in the attractive mature markets of Scandinavia and Canada
- An Irish business which consistently outperforms the market
- A targeted, niche Italian operation
- Fast-growing Emerging Markets businesses.

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

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

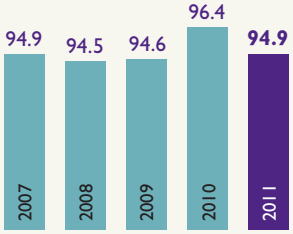
We also remain on target to grow Emerging Markets NWP to around £2.2bn by the end of 2015.

Net written premiums (£m)



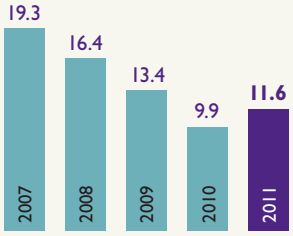

9%
Growth

Combined operating ratio (%)



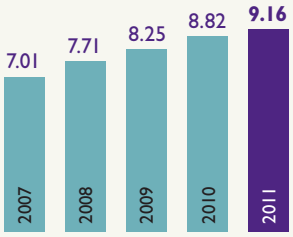

94.9%
1.5pt improvement

Underlying return on average equity (%)




11.6%
1.7pt improvement

Dividend for the year (p)




4%
Growth

## HIGHLIGHTS

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

Visit www.rsagroup.com for more information.

This Annual Review and Summary Financial Statements contains 'forward-looking statements' with respect to certain of the Group's plans and its current goals and expectations relating to its future financial condition, performance, results, strategic initiatives and objectives. For further details, reference should be made to the 'important disclaimer' on the inside back cover.

Pages 2 to 37 constitute the business review of RSA and are incorporated by reference into the Directors' and corporate governance report set out on pages 44 to 48. The Directors' and corporate governance report has been drawn up and presented in accordance with and in reliance upon applicable English company law and the liabilities of the Directors in connection with that report shall be subject to the limitations and restrictions provided by such law.

## CONTENTS

# RSA AROUND THE WORLD

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

REGIONS

### SCANDINAVIA

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

### CANADA

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

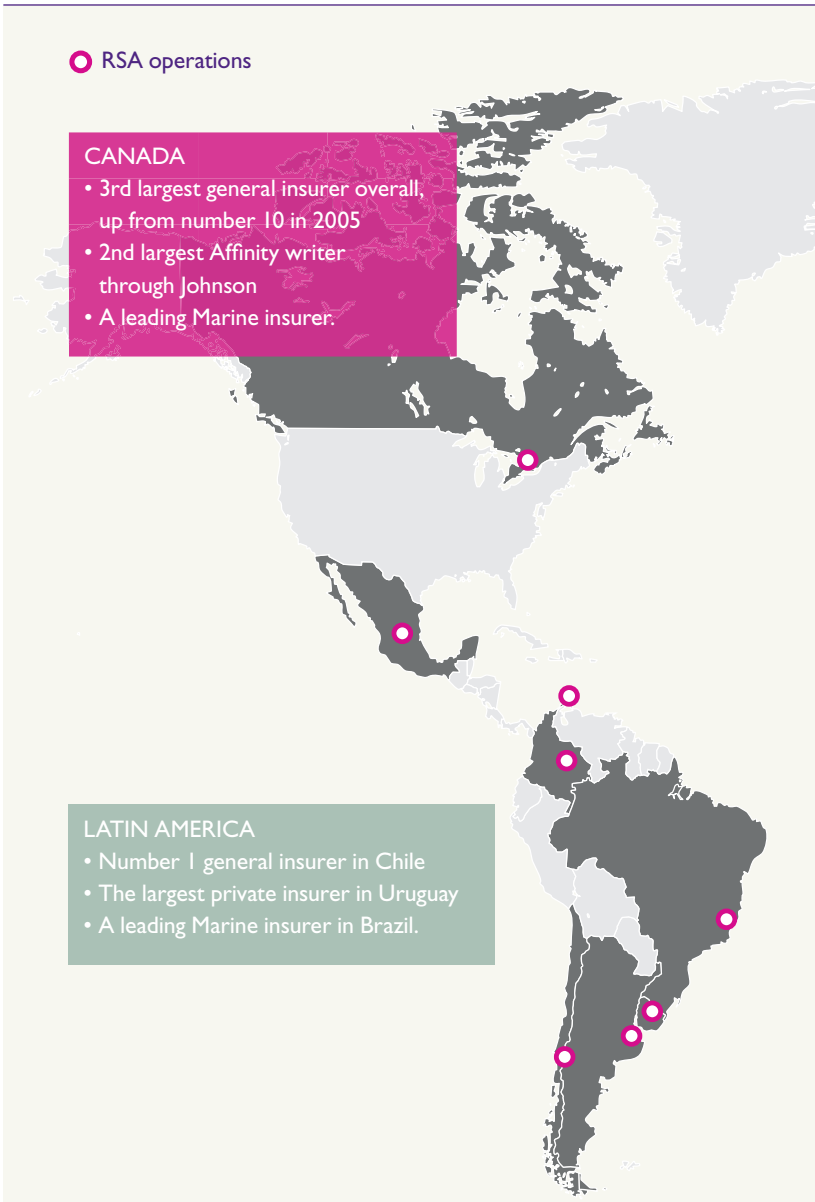
### UK AND WESTERN EUROPE

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

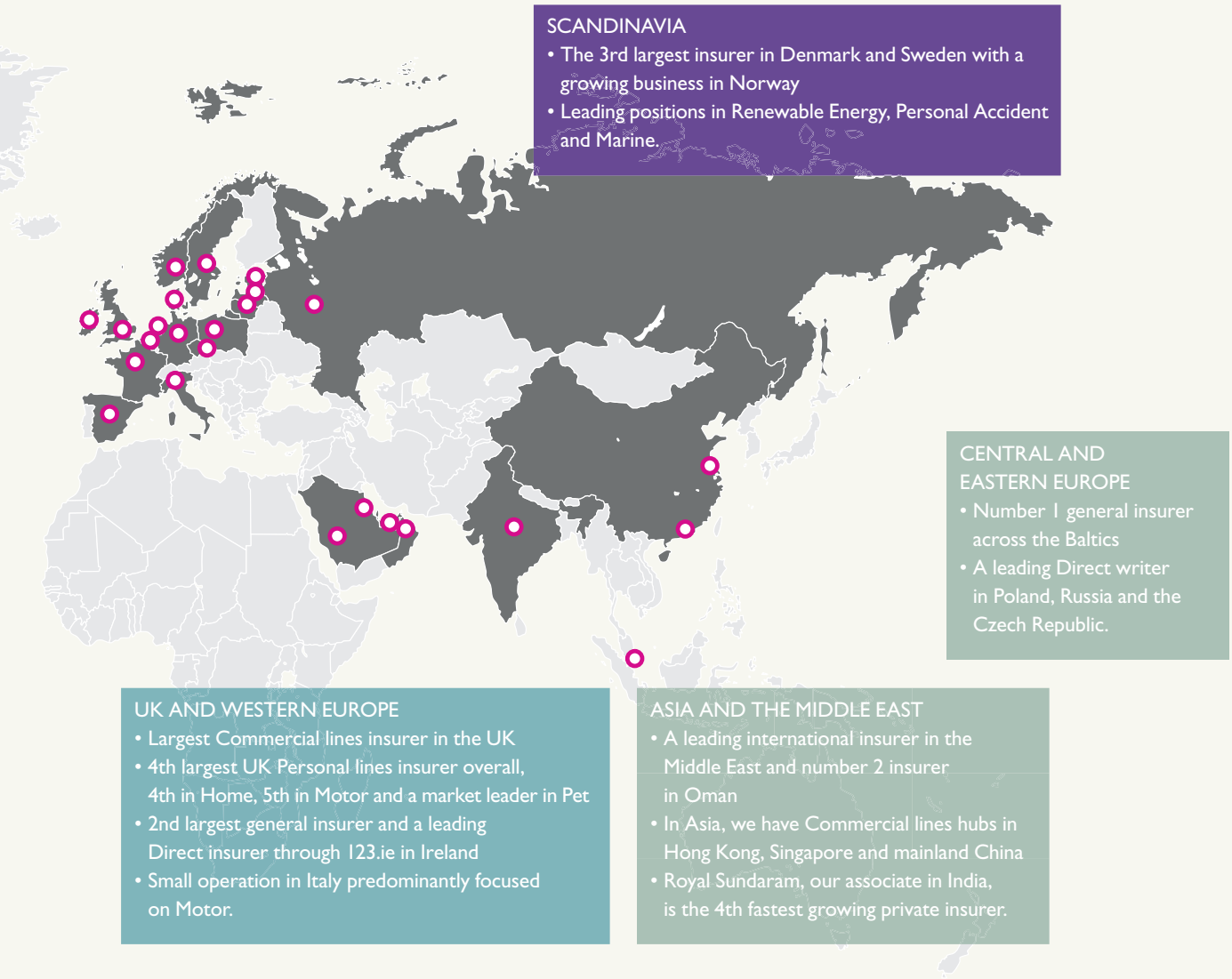
### EMERGING MARKETS

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

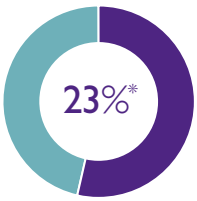
KEY FACTS



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



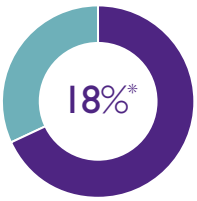

## SCANDINAVIA




NWP £1,824m

| | |
|---|---|
| Personal | 54% |
| Commercial | 46% |

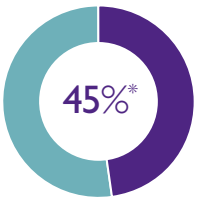
## CANADA




NWP £1,483m

| | |
|---|---|
| Personal | 68% |
| Commercial | 32% |

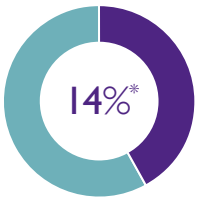
## UK AND WESTERN EUROPE




NWP £3,701m

| | |
|---|---|
| Personal | 48% |
| Commercial | 52% |

## EMERGING MARKETS




NWP £1,103m

| | |
|---|---|
| Personal | 42% |
| Commercial | 58% |

*Of total 2011 Group NWP

# WHAT WE DO

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

## OUR UNDERWRITERS PRICE RISK

### WE ARE COMMITTED TO UNDERWRITING DISCIPLINE AND TECHNICAL EXCELLENCE

**Our Personal lines products include**

- Motor
- Household
- Pet
- Travel.

**Our Commercial lines products include**

- Motor
- Marine
- Engineering
- Liability
- Property.

### RISK SELECTION

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

### REINSURANCE

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

### RESERVING

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

## WE DISTRIBUTE OUR PRODUCTS AND SERVICES

### WE FOLLOW A MULTI-CHANNEL DISTRIBUTION STRATEGY

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

### INTERMEDIARIES

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

### AFFINITY CHANNELS

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

### DIRECTLY

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

### OUR BRANDS

RSA

الأهلية AL AHLIA PART OF THE RSA GROUP

LINK4 PART OF THE RSA GROUP

العالمية AL ALAMIYA PART OF THE RSA GROUP

CODAN PART OF THE RSA GROUP

TRYGG HANSA

ANSWER

Royal Sundaram General Insurance

MORE TH>N PART OF THE RSA GROUP

WE SETTLE CLAIMS QUICKLY AND FAIRLY

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

### PEOPLE

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

### CAPABILITY

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

### DELIVERY

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

### SUPPLIERS

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

### LEVERAGING GLOBAL CLAIMS EXPERTISE

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

WE INVEST PRUDENTLY

## WE FOLLOW A HIGH QUALITY, LOW RISK INVESTMENT STRATEGY

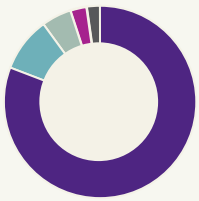
The Group continues to benefit from its low risk investment strategy with around 90% of the total portfolio invested in high quality fixed income and cash, with measured holdings in equities and property.

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

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

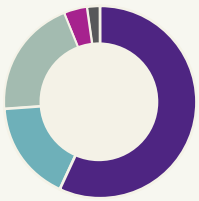
In 2012, we will continue to follow our high quality, low risk strategy.

Investment portfolio (%)



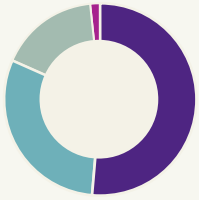
| | |
|---|---|
| Bonds | 81 |
| Cash | 9 |
| Equities | 5 |
| Property | 3 |
| Other inc. Prefs and CIVs | 2 |

Bond portfolio – Credit quality (%)



| | |
|---|---|
| AAA | 57 |
| AA | 17 |
| A | 20 |
| BBB | 4 |
| <BBB | 2 |

Peripheral Europe Sovereign Debt Exposure (£m)



| | |
|---|---|
| Ireland | 71 |
| Italy | 42 |
| Spain | 23 |
| Greece | 2 |
| Portugal | 0 |

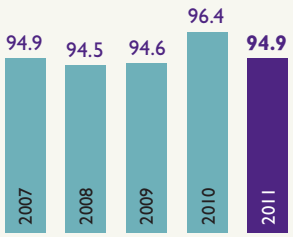
# CHAIRMAN'S STATEMENT
# CONTINUED PROGRESS IN A CHALLENGING YEAR

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

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

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

Combined operating ratio (%)




The financial highlights of what was a challenging year included

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

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

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

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

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

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

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

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

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

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

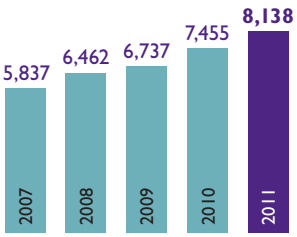
The Non-Executive Directors are

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

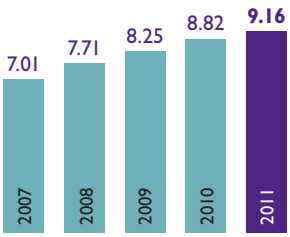
"We continue to be well placed to deal with current global economic and financial circumstances and drive this company forward."

John Napier, Chairman

Net written premiums (£m)




Dividend for the year (p)




Net written premium growth

+9%

Dividend increase

+4%

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

Both Jos and Alastair have extensive international insurance industry experience.

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

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

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

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

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

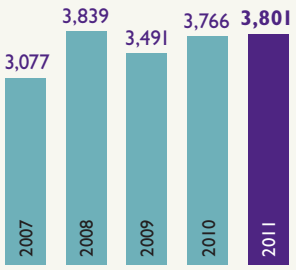
There is a need for more objective analysis and action by individual companies, by industry and by sector. There is no simple generalisation that all bonuses are bad and no bonus is good. The vilification of people doing important and demanding tasks on behalf of taxpayers should be silenced by strong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

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

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

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

Shareholders' funds (£m)



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

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

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

**John Napier**
Chairman

**2011 net written premiums (%)**


| | |
|---|---|
| Overseas | 64 |
| UK | 36 |

visit www.rsagroup.com

# GROUP CEO'S REVIEW
# CONTINUED DELIVERY

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

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

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

## A GOOD RESULT IN 2011

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

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

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

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

## REGIONAL OVERVIEW

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

### Scandinavia

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

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

### Canada

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

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

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

### UK and Western Europe

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

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

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

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

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

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

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

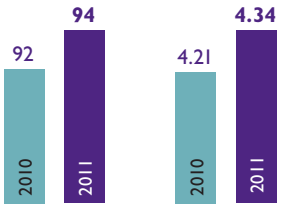
Simon Lee, Group CEO

**Underlying return on average equity (%)**

11.6%

(2010: 9.9%)

**Employee engagement**




**Regulatory capital surplus (£)**

1.3bn

2.0 x the requirement

**NAV per share, excluding pension deficit (p)**

108p

(2010: 108p)

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

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

**Emerging Markets**

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

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

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

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

## STRONG FINANCIAL POSITION

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

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

## SUPPORTING CUSTOMERS

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

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

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

## INVESTING IN PEOPLE

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

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

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

## CORPORATE RESPONSIBILITY

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

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

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

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

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

## INDUSTRY AND MARKET OVERVIEW

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

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

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

## REGULATION

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

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

## STRATEGY

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

### Retain fundamental strengths

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

### Build on firm foundations

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

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

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

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

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

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

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

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

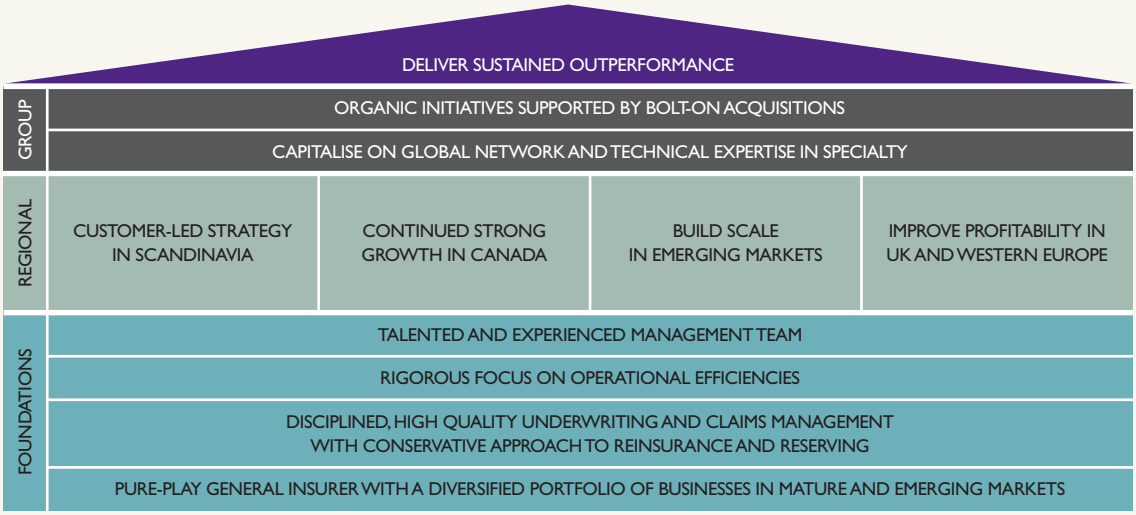
Finally, we have a talented and experienced management team who collectively have driven our success over a number of years.

### Diversified Portfolio

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

### Scandinavia

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



### Canada

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

### Emerging Markets

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

### UK and Western Europe

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

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

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

### Product Diversification

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

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

### M&A

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

### Summary

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

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

## CONFIDENT OUTLOOK

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

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

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

**Simon Lee**
Group Chief Executive

visit www.rsagroup.com

# GLOBAL SPECIALTY LINES

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

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

## OUR SPECIALIST EXPERTISE

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

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

Global Specialty Lines is organised into these areas of expertise

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

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

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

# SCANDINAVIA

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

### KEY STRATEGIES

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

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

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

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

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

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

### 2011 OVERVIEW

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

**Commercial lines**

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

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

**Personal lines**

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

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

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

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

### MARKET CONDITIONS

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

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

### CUSTOMER

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

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

Mike Holliday-Williams, Chief Executive, Scandinavia

## PEOPLE

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

## 2012 OUTLOOK

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

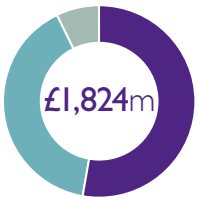
Trading conditions are therefore expected to continue to be challenging, although less so than in some other parts of Europe. Despite this environment, we are confident of delivering our new strategy and continuing to deliver strong underwriting profitability in 2012.

visit www.rsagroup.com

### 2011 net written premiums (%)

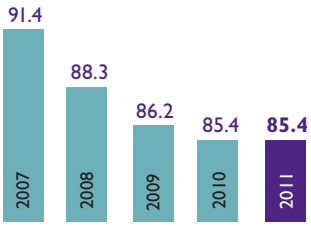

| | |
|---|---|
| Personal | 54 |
| Commercial | 46 |

### 2011 net written premiums (£m)

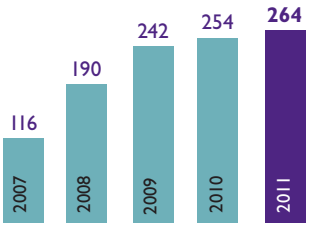



| | |
|---|---|
| Sweden | 957 |
| Denmark | 733 |
| Norway | 134 |

### Combined operating ratio (%)



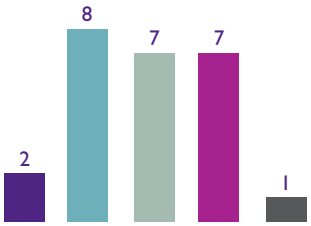

### Underwriting result (£m)




## HIGHLIGHTS

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

### Rate movement* (%)




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

*Movement in renewal rate for December 2011 v December 2010

# CANADA

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

### KEY STRATEGIES

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

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

### 2011 OVERVIEW

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

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

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

#### Commercial lines

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

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

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

#### Personal lines

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

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

#### Johnson

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

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

#### Personal Broker

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

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

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

### MARKET CONDITIONS

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

### CUSTOMER

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

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

Rowan Saunders, Chief Executive, Canada

## PEOPLE

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

## TECHNICAL EXCELLENCE

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

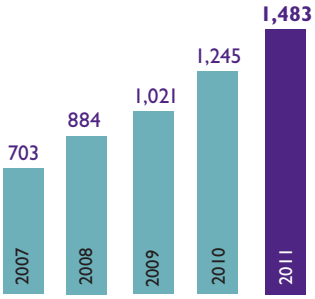
## 2012 OUTLOOK

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

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

visit www.rsagroup.com

### Net written premiums (£m)



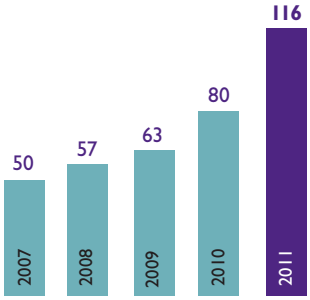

### HIGHLIGHTS

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

### 2011 net written premiums (%)


| | |
|---|---|
| Johnson | 37 |
| Personal Broker | 31 |
| Commercial | 32 |

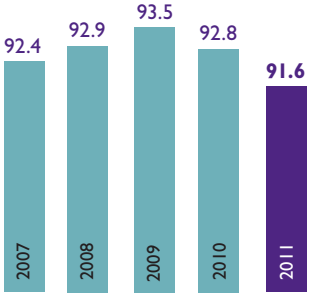
### Underwriting result (£m)




### 2011 underwriting result (%)


| | |
|---|---|
| Johnson | 32 |
| Personal Broker | 32 |
| Commercial | 36 |

### Combined operating ratio (%)



# UK AND WESTERN EUROPE

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

### KEY STRATEGIES

**UK**

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

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

**Western Europe**

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

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

### 2011 OVERVIEW

**UK**

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

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

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

**UK Commercial**

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

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

**UK Personal**

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

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

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

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

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

**Italy**

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

**Ireland**

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

### MARKET CONDITIONS

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

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

### CUSTOMER

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

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

Adrian Brown, Chief Executive, UK and Western Europe

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

## PEOPLE

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

## TECHNICAL EXCELLENCE

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

## OUTLOOK

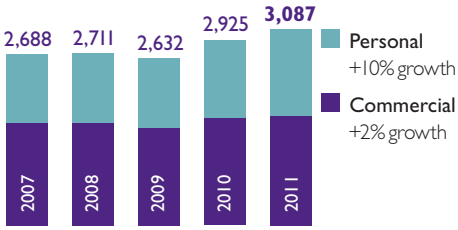
In the UK, we are encouraged by indications that the Government is going to make regulatory changes which will improve what has become a dysfunctional Motor market. More broadly, we will continue to re-position the business to make it more focused and maximise its contribution to the Group's underwriting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

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

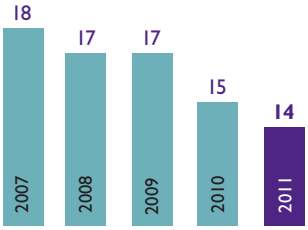
With the action we are taking, I'm confident that the UK and Western Europe will come to deliver greater levels of profitability.

visit www.rsagroup.com

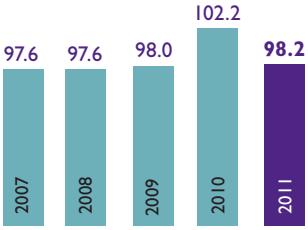
UK net written premiums (£m)




UK expense ratio (%)




UK combined operating ratio (%)




Ireland net written premium growth*

16%

* Reported

Ireland combined operating ratio

92.6%

(2010: 90.9%)

## UK HIGHLIGHTS

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

## UK COMMERCIAL

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

## UK PERSONAL

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

## ITALY

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

## IRELAND

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

# EMERGING MARKETS

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

### KEY STRATEGIES

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

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

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

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

### 2011 OVERVIEW

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

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

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

**Latin America**

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

**Central and Eastern Europe**

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

**Asia and the Middle East**

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

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

### STRATEGIC PRIORITIES

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

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

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

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

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

### MARKET CONDITIONS

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

### PEOPLE

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

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

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

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

Paul Whittaker, Chief Executive, Emerging Markets

## TECHNICAL EXCELLENCE

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

## 2012 OUTLOOK

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

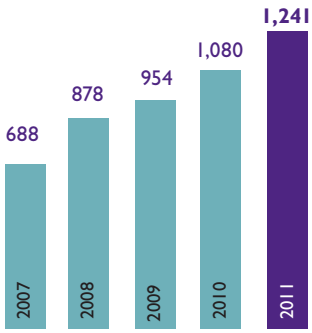
In contrast, economic recovery in Central and Eastern Europe is expected to slow down in 2012 as a consequence of the Eurozone crisis. We will look to build on our leading positions in this market.

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

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

visit www.rsagroup.com

NWP with Indian associate (£m)

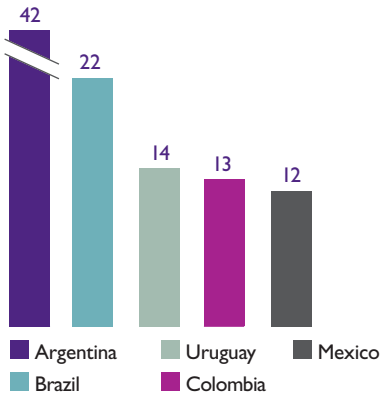



Combined operating ratio (%)

**98.7%**

(2010: 98.7%)

2011 Latin America NWP growth* (%)




* constant exchange

CEE Direct vehicles insured

**400,000**

(2010: 340,000)

## EMERGING MARKETS

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

## LATIN AMERICA

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

## ASIA AND THE MIDDLE EAST

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

## CENTRAL AND EASTERN EUROPE

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

# FINANCIAL REVIEW

## A GOOD PERFORMANCE IN CHALLENGING CONDITIONS

### RESULTS OVERVIEW

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

### NET WRITTEN PREMIUMS

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

### OPERATING RESULT

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

#### Underwriting result

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

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

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

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

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

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

#### Investment result

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

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

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

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

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

George Culmer, Chief Financial Officer

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

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

### Other activities

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

### Other movements

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

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

### Tax

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

## Financial highlights (management basis)

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

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

## Investment result

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

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

**Profit after tax**

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

## 2011 DIVIDEND

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

## BALANCE SHEET

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

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

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

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

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

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

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

## CAPITAL POSITION

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

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

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

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

## SOLVENCY II

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

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

## RATING AGENCIES

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

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

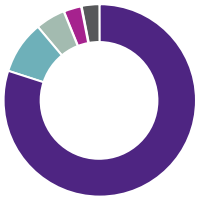
## PENSION FUND

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

## SUMMARY

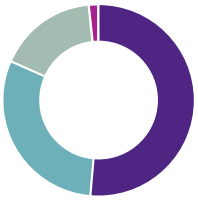
In what were again challenging industry conditions, 2011 was a good year for the Group. Market conditions are expected to again be difficult in 2012, with investment yields remaining at historical lows and subdued economic growth in some of our markets. Despite this, the Group expects to deliver good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

### Investment portfolio (%)



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

### Peripheral Europe Sovereign Debt Exposure (£m)



| | |
|---|---|
| Ireland | 71 |
| Italy | 42 |
| Spain | 23 |
| Greece | 2 |
| Portugal | 0 |

### Economic Capital Surplus (£bn)


### Regulatory capital surplus

£1.3bn

2x requirement

### Credit ratings*

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

* Group and principal subsidiaries

# RISK REVIEW

## OUR BUSINESS SUCCESS IS UNDERPINNED BY OUR STRONG RISK MANAGEMENT

### RISK MANAGEMENT

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

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

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

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

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

### GROUP RISK APPETITE

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

### RISK FRAMEWORK

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

**1st line – Management**

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

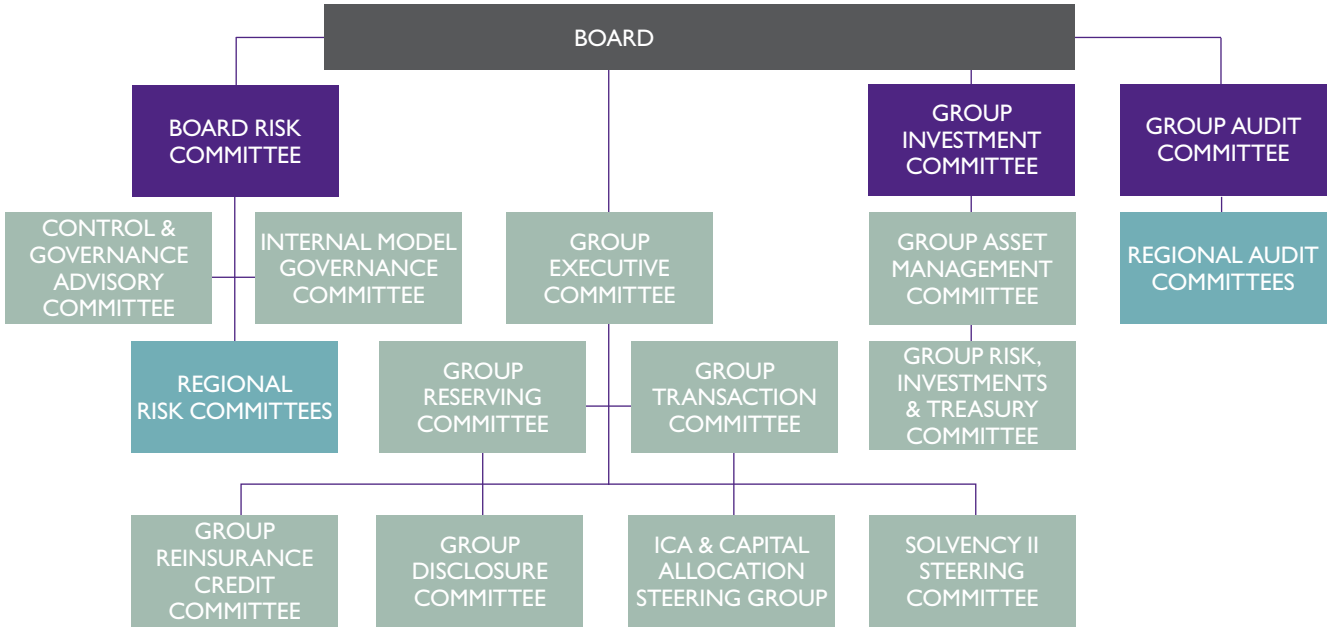
**2nd line – Risk oversight**

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

**3rd line – Independent assurance**

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

Governance structure – the principal committees are shown below



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

David Weymouth, Group Operations and Risk Director

## GROUP RISK POLICY STATEMENTS

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

## RISK CATEGORIES

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

PRINCIPLES

| | |
|---|---|
| Simple objectives | • Create value for all stakeholders<br>• Focus on general insurance in our selected markets<br>• Commitment to sustainable, profitable performance. |
| Clear risk appetite | • Underwriting and operating excellence<br>• Strong control environment<br>• Tight financial management<br>• Protecting and managing the Group's reputation. |
| Robust governance, control and reporting | • Comprehensive policy, procedures and controls<br>• Clear delegation of authorities<br>• Robust lines of defence<br>• Regular and relevant reporting and assurance processes. |
| Strong culture | • Board set 'tone from the top' of open communication and engagement<br>• Putting the customer at the centre of what we do<br>• High quality and engaged staff. |

2011 UPDATE

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

## ORGANISATION AND CULTURE

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

## SYSTEMS AND PROCESS

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

## PEOPLE

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

## RISKS CATEGORIES

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

## PRINCIPAL UNCERTAINTIES

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

# CORPORATE RESPONSIBILITY

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

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

## CR SUPPORTS OUR STRATEGY

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

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

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

## APPROACH AND GOVERNANCE

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

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

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

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

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

## CUSTOMERS

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

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

Our commitment to customers was underlined when our UK business won

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

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

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

## BUSINESS PARTNERS

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

RSA | PARTNERING FOR PROGRESS | WWF

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

### WWF RSA ARCTIC CHALLENGE

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

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

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

## RESPONSIBLE INVESTMENT

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

## EMPLOYEES

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

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

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

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

## CLIMATE CHANGE AND THE ENVIRONMENT

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

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

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

## COMMUNITY STRATEGY

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

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

## ROAD SAFETY

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

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

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

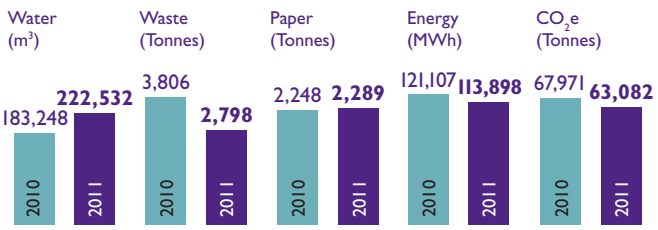
### Greenhouse gas emissions for RSA Insurance Group (Tonnes of $CO_2e$*)

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

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

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

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



### Social inclusion

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

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

### Environment

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

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

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

RSA | PARTNERING FOR PROGRESS | WWF

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

### WWF PARTNERSHIP

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

### Water

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

### Marine

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

### Renewable energy

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

# CONSTRUCTION, ENGINEERING AND RENEWABLE ENERGY

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

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

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

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

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

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

# BOARD OF DIRECTORS

## JOHN NAPIER

**Chairman (age 69)**

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

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

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

## SIMON LEE

**Group Chief Executive (age 51)**

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

**External appointments**
None currently held.

**Committee membership**
- Investment Committee
- Board Risk Committee

## GEORGE CULMER

**Chief Financial Officer (age 49)**

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

**External appointments**
None currently held.

**Committee membership**
- Investment Committee
- Board Risk Committee

## ADRIAN BROWN

**Chief Executive, UK (age 47)**

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

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

**Committee membership**
- No committee memberships.

## EDWARD LEA

**Senior Independent Non-Executive Director (age 70)**

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

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

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

KEY:

CHAIRMAN

EXECUTIVE DIRECTORS

NON-EXECUTIVE DIRECTORS

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

## ALASTAIR BARBOUR

**Independent Non-Executive Director (age 59)**

**Skills and experience**
Alastair Barbour was appointed as a Non-Executive Director in October 2011. Alastair retired from KPMG in March 2011. In the last 20 years of his 36 year career with the firm, in the UK and overseas, he led their financial services team in Scotland with a primary focus on insurance and investment management.

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

**Committee membership**
- Group Audit Committee
- Investment Committee

## NOEL HARWERTH

**Independent Non-Executive Director (age 64)**

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

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

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

## MALCOLM LE MAY

**Independent Non-Executive Director (age 54)**

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

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

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

## JOHN MAXWELL

**Independent Non-Executive Director (age 67)**

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

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

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

## JOSEPH STREPPEL

**Independent Non-Executive Director (age 62)**

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

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

**Committee membership**
- Remuneration Committee
- Investment Committee

## JOHANNA WATEROUS

**Independent Non-Executive Director (age 54)**

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

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

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

# EXECUTIVE TEAM

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

## PAUL DONALDSON

**Group Broker Relationship and Sales Director**

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

## VANESSA EVANS

**Acting Group Customer and Human Resources Director**

Vanessa joined RSA in 2005 as UK Human Resources Business Partner Director for Claims and Finance. In 2006 she was appointed as Human Resources Director for the newly created Emerging Markets Region. In September 2008, she was promoted to UK Human Resources Director and since September 2011, has been acting Group Customer and Human Resources Director. Prior to working at RSA, Vanessa was HR Director – Global Retail at Lego and before that Head of HR for Gap, the international clothing retailer.[2]

## TIMOTHY MITCHELL

**Group Underwriting and Claims Director**

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

## ROWAN SAUNDERS

**Chief Executive, Canada**

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

Notes:

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

## MIKE HOLLIDAY-WILLIAMS

**Chief Executive, Scandinavia**

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

## ORLAGH HUNT

**Group Customer and Human Resources Director**

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

## ANNE JÆGER

**Group Chief Auditor**

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

## DEREK WALSH

**Group General Counsel and Group Company Secretary**

Derek joined the Group as Group General Counsel and Group Company Secretary in July 2010 and has over 17 years experience in the insurance industry. From 2002, he served as Group General Counsel at Benfield Group Limited, where he was responsible for the global legal, company secretarial and compliance teams. Prior to that, Derek held positions in law firms Pinsent Curtis (now Pinsent Masons), McKenna & Co (now CMS Cameron McKenna) and Norton Rose.

## DAVID WEYMOUTH

**Group Operations and Risk Director**

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

## PAUL WHITTAKER

**Chief Executive, Emerging Markets**

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

# DIRECTORS' AND CORPORATE GOVERNANCE REPORT

The Directors of RSA Insurance Group plc present the summary consolidated financial statements of the Company for the year ended 31 December 2011. The full Directors' and Corporate Governance Report is contained in the Annual Report and Accounts which is available on RSA's website at **www.rsagroup.com/ar2011** or on request from the Company's registrar as detailed in the Shareholder Information section of this report on page 78.

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

Remuneration is covered in the summary Remuneration Report on pages 49 to 63.

### Code compliance

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

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

## LEADERSHIP

### The Role of the Board

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

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

## 2011 HIGHLIGHTS

**(in addition to items discussed elsewhere in this report)**

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

The Board and each of its committees: Group Audit, Remuneration, Nomination, Board Risk and Investment have written terms of reference explaining their role and the authority delegated to them. Each of the committees' terms of reference are available on the Company's website. Further details on the principal duties of each of the Board committees can be found under Accountability on page 45.

## EFFECTIVENESS

### Performance evaluation

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

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

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

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

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

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

### Re-election

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

## ACCOUNTABILITY

### GROUP AUDIT COMMITTEE (GAC) REPORT

#### PRINCIPAL DUTIES OF THE GAC

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

#### 2011 HIGHLIGHTS

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

### External auditor

Deloitte LLP was appointed as the Group's external auditor in 2007. During the year Deloitte LLP was engaged as an adviser on a number of occasions. In order to maintain their independence, such appointments are only made in accordance with a protocol developed and embedded by the GAC. This provides that the external auditor should not carry out work where the output or recommendations are then subject to its review as external auditor. Work may be given to the external auditor where it is closely allied with the audit function or it is advantageous to the Group to use its external auditor in view of its knowledge and experience of RSA. This could include accounting advice, regulatory returns, tax advice or due diligence work. All non audit work over £100,000 must be approved in advance by the CFO and all non audit work over £250,000 will be notified by the CFO to the GAC Chairman. With reference to the protocol, the GAC is satisfied that there are no matters that would compromise the independence of the external auditor or affect the performance of its statutory duties. Details of fees paid to Deloitte LLP during 2011 for audit and non audit work are disclosed in the auditor remuneration table in note 4 on page 108 of the full Annual Report and Accounts.

There are no contractual obligations that restrict the Company's choice of external auditor.

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

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

## BOARD RISK COMMITTEE (BRC) REPORT

### PRINCIPAL DUTIES OF THE BRC

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

### 2011 HIGHLIGHTS

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

## INVESTMENT COMMITTEE REPORT

### PRINCIPAL DUTIES OF THE INVESTMENT COMMITTEE

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

### 2011 HIGHLIGHTS

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

## NOMINATION COMMITTEE REPORT

### PRINCIPAL DUTIES OF THE NOMINATION COMMITTEE

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

### 2011 HIGHLIGHTS

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

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

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

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

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

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

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

## RELATIONS WITH SHAREHOLDERS

### Annual General Meeting

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

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

Separate resolutions are proposed on each substantive issue, including a resolution to adopt the Annual Report and Accounts. In accordance with the provisions of the Articles of Association (Articles), any form of proxy sent by the Company to shareholders in relation to any general meeting must be delivered to the Company, whether in written form or in electronic form, not less than 48 hours before the time for holding the meeting excluding non business days (or, in the case of a poll taken otherwise than at or on the same day as the meeting, not less than 24 hours before the time appointed for the taking of the poll).

At any general meeting, every ordinary shareholder present shall have one vote on a show of hands and on a poll, every ordinary shareholder present in person or by proxy shall have one vote for each share of which he is the holder. Each resolution was put to a poll at the AGM in 2011. The results of the vote on each resolution are announced to the London Stock Exchange and are available on the Company's website.

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

### Substantial share interests

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

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

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

## OTHER STATUTORY INFORMATION

### Dividends

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

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

### Share capital

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

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

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles and legislation. The Directors are not aware of any agreements between the Company's shareholders that may result in restrictions on the transfer of securities or on voting rights. The Company may purchase any of its own shares (including any redeemable shares). An authority from ordinary shareholders for the Company to purchase up to 349,818,708 of its own ordinary shares (representing 10% of its issued share capital as at 21 March 2011) remained in force at 31 December 2011.

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

### Articles of Association

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

### Borrowing powers

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

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

By order of the Board

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

# REMUNERATION REPORT

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

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

- The table of Directors' emoluments and associated footnotes on page 59 and the disclosure of the items comprising benefits in kind
- The tables of defined benefit and defined contribution pensions on page 60 and associated footnotes
- The table of disclosure of Directors' share options and share awards on pages 61 to 63 and associated footnotes.

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

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

### Duties and Activities of the Committee

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

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

The Committee is required under its terms of reference to meet at least twice each year, but meets as often as is necessary throughout the year to ensure that it is able to fully report to the Board and shareholders on all relevant matters. In 2011, the Committee met seven times and discussed, amongst other things, the subjects described in the table on page 50.

### Membership of the Committee

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

All Committee members are independent non-executive directors except for John Napier, Board Chairman, who was judged to be independent on the date of his appointment to the Board. Fees for serving as a Committee member and chairing Committees of the Board are described in the Non-Executive Directors' section of this Report on page 58. Malcolm Le May was also a member of the Board Risk Committee during the year. This is to help ensure that decision-making on remuneration matters properly takes into account the Group's risk appetite. Members' attendance at the Committee meetings held in 2011 was as follows:

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

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

### Attendees at Committee Meetings

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

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

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

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

Summary of the Remuneration Committee meetings held in 2011

| Meeting | Standard agenda items | Additional items discussed |
|---|---|---|
| January | • Approval of the performance conditions and the Executive Directors' conditional awards under the Long-Term Incentive Plan (LTIP) in 2011<br>• Review of the measurement of the relative Total Shareholder Return (TSR) performance condition applying to conditional awards granted under the LTIP in 2008 and approval for awards to vest<br>• Approval of the 2010 Remuneration Report<br>• Review of the 2011 objectives and performance goals for each Executive Director. | |
| March (two meetings) | • Review of Executive Directors' base salaries.<br>• Determining the outcome of annual bonuses for 2010 in the light of actual performance against agreed goals and objectives for each Executive Director<br>• Review of the measurement of the Return on Equity (ROE) performance condition applying to conditional awards granted under the LTIP in 2008, and approval for awards to vest<br>• Review of the forecast of share usage for LTIP awards and approval of the grant of awards in April 2011<br>• Review of proposals for the annual bonus plan for 2011. | • Review of the Remuneration Committee's Terms of Reference. |
| July | • Confirmation of the LTIP awards made in April 2011<br>• Approval for the grant of conditional LTIP awards in September 2011<br>• Approval to operate the all-employee share plans (Sharesave and Sharebuild) in 2011. | • Review of TSR performance for LTIP grants in 2008 to 2010<br>• Review and approval of the remuneration applying to Adrian Brown, following his appointment to the Board. |
| August | | • Approval of Simon Lee's remuneration package as Group Chief Executive. |
| September | • Review of the level of take up under Sharesave and Sharebuild<br>• Review of share usage following the grant of awards under the LTIP in September 2011. | • Update on the impact of regulatory changes in Scandinavia affecting the remuneration arrangements of material risk takers. |
| December | • Update on performance of the annual bonus plan 2011 and LTIP cycles for 2009, 2010 and 2011. | • Approval of minor revisions to the LTIP rules enabling the plan to be compliant with regulation in Sweden and Denmark<br>• Updates on corporate governance and pension tax changes<br>• Approval of the terms relating to Andy Haste's resignation<br>• Review of incentive plan benchmarking analysis<br>• Commenced an effectiveness review of the Committee (reported on in the Corporate Governance Report on page 45). |

**Remuneration policy principles**

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

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

- Total remuneration is set at a competitive level which enables the recruitment, retention and reward of high-quality executive talent
- There is a strong and visible link between remuneration and performance: only exceptional levels of performance will generate exceptional levels of total reward
- A high proportion of the Executive Directors' variable pay is made in the form of shares which aligns their interests with those of shareholders, and this is further strengthened by the share ownership guidelines which are detailed on page 57
- A balance of short and long-term performance measurement is used, incorporating appropriate financial and non-financial targets
- Remuneration policy and practice is transparent to shareholders
- Where relevant, there is consideration of environmental, governance and social risks when determining remuneration for Executive Directors and senior managers to ensure that positive and appropriate behaviours are reinforced.

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

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

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

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

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

**Elements of remuneration**

Remuneration for Executive Directors in 2012 will consist of the four principal elements described in the table on page 51, of which only base salary is pensionable:

| Remuneration | Purpose | Delivery | Detail |
|---|---|---|---|
| Base salary | To reflect the market value of the role and the skills, experience and performance of the individual. | Paid in cash on a monthly basis and is pensionable. | Reviewed annually, changes are effective from 1 April.<br><br>Benchmarked against equivalent roles in similar companies (having regard to the market median) and with reference to the sustained performance of the executive. |
| Annual performance bonus | To incentivise the delivery of annual goals at Group, business division and individual levels. | The maximum bonus opportunity is 160% of base salary.<br><br>Up to 120% of base salary can be awarded as a cash bonus, and up to 40% of base salary can be issued in the form of compulsory Deferred Shares. These shares are held on behalf of the director for three years, subject to continued employment.<br><br>Executive Team members are expected to defer an additional element of their cash bonus so that the total deferral is around 50% of the total cash bonus award. | Financial performance in 2012 will be measured through stretching targets based on COR and NWP performance according to Group and business divisions.<br><br>Individual targets are approved by the Committee and reflect stretching financial and non-financial measures. |
| LTIP | To reward the creation of sustained growth in shareholder value and to align managements' interests with those of shareholders. | Performance Shares are awarded subject to stretching underlying ROE and relative TSR performance conditions.<br><br>Matching Shares can vest according to the level of share deferral, subject to stretching performance conditions. | Entry into the LTIP is discretionary – award levels and participation are reviewed annually.<br><br>Full details of the performance conditions and vesting are described on pages 55 and 56. |
| Pension | To provide appropriate and market competitive post retirement benefits. | Delivery is through deferred remuneration into a defined benefit or defined contribution scheme and/or through taxable cash payments made on a monthly basis. | Cash payments are provided if pension participation cannot be maintained (in full or in part) due to HM Revenue and Customs tax limits. |

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

The following charts set out the elements of the Executive Directors' remuneration for 2011. The bonus value is based on the cash bonus plus the fair value of the compulsory Deferred Shares granted in 2011. The LTIP value is based on the fair value of awards of Performance Shares (as defined on page 55) and an expected value of half of the maximum potential number of matching shares that may vest (subject to performance) relating to voluntary and compulsory Deferred Shares granted under the LTIP in 2011.

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

Andy Haste (%)

| | |
|---|---|
| Salary | 23 |
| Bonus | 30 |
| LTIP | 47 |

Simon Lee (%)

| | |
|---|---|
| Salary | 36 |
| Bonus | 29 |
| LTIP | 35 |

George Culmer (%)

| | |
|---|---|
| Salary | 30 |
| Bonus | 11 |
| LTIP | 59 |

Adrian Brown (%)

| | |
|---|---|
| Salary | 26 |
| Bonus | 30 |
| LTIP | 44 |

### Base salary

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

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

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

### 2011 Pay review

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

The current base salaries paid to each Executive Director are:

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

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

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

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

### Annual Incentive Plan

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

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

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

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

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

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

Bonuses paid to Executive Directors in respect of the 2011 financial year are included in the table of Directors' emoluments on page 59. The Committee is satisfied that the bonus payments made in respect of 2011 are appropriate given the COR and NWP results delivered across the Group throughout the year, in addition to the contribution made by each Executive Director.

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

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

### Long Term Incentive Plan (LTIP)

The Group's long-term incentive plan (LTIP) was introduced in 2006 to drive sustainable, long-term returns and it covers Executive Directors, the Executive Team and Top 100. There are three main types of award that can be granted to participants and these are covered on page 55. LTIP awards are funded through a combination of new issue and market purchase shares.

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

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

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

**Deferred Shares**
As described in the annual incentive plan section on page 54 Executive Directors may be granted Deferred Shares as part of their annual bonus award (compulsory Deferred Shares). These Deferred Shares are held in a Trust and normally vest three years from the date of grant, subject to continued employment with the Group. During the three-year holding period, the Deferred Shares must remain in the Trust.

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

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

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

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

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

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

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

The TSR comparator group consists of the following companies:

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

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

For awards made in 2008 that vested in 2011, the ROE performance condition was partially met at a result of 13.8% and the relative TSR performance condition was achieved in full at 3.2%. A note of the shares that vested in relation to the Executive Directors is given on page 63.

As noted on page 51, the Committee agreed that Andy Haste would be considered a "good leaver" in accordance with the LTIP rules relating to the unvested share awards granted to him in 2009, 2010 and 2011. George Culmer's unvested share awards will lapse on the date his employment with the Company ends.

### Sharesave

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

Details of the Executive Directors' interests in Sharesave are noted on page 62.

### Sharebuild

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

Details of the Executive Directors' interests in Sharebuild are noted on page 62.

### Dilution

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

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

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

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

The number of shares held by each Executive Director as at 31 December 2011 (excluding Voluntarily Invested Deferred Shares held under the LTIP and Matching Shares and Dividend Shares held under Sharebuild) is shown in the table on page 61.

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

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

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

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

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

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

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

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

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

### External directorships

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

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

### Non-Executive Directors

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

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

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

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

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

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

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

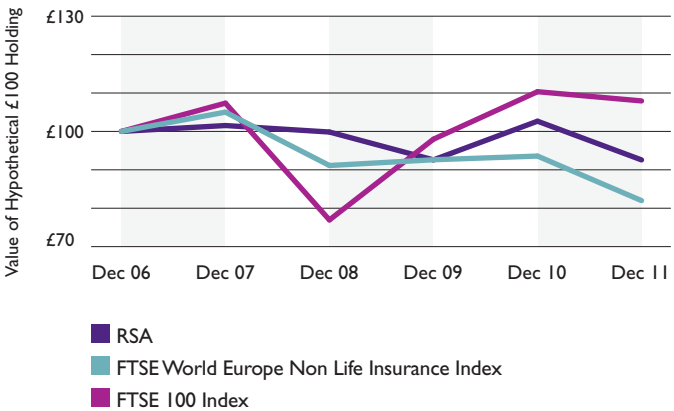
### Historical TSR performance

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

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

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

Based on spot values



## DIRECTORS' EMOLUMENTS AND INTERESTS (AUDITED)

### Directors' emoluments

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

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

Notes:

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

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

### Pension benefits

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

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

Notes:

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

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

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

Notes:

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

### Shareholdings

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

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

Notes:

1. The Executive Directors each had a beneficial interest as at 31 December 2011 in the Voluntarily Invested Deferred Shares of 27.5p each held under the LTIP and in the Matching Shares under Sharebuild which are not included in the above table. These are disclosed on pages 62 and 63.
2. As at 22 February 2012, the interests in ordinary shares of the Non-Executive Directors remained unchanged since 31 December 2011.
3. Assuming share price of 1.052p (the closing middle market price on the last dealing day of the year) and including Voluntarily Invested Deferred Shares of 27.5p each held under the LTIP and in the Matching Shares under Sharebuild which are disclosed on pages 62 and 63.
4. Adrian Brown was appointed as a Director on 5 July 2011. Accordingly, the table above shows shares held by him on 5 July 2011 and not 1 January 2011.
5. Jos Streppel was appointed to the Board on 3 October 2011 and Alastair Barbour was appointed to the Board on 10 October 2011. Accordingly, the table above shows shares held by them on the date of their respective appointments and not 1 January 2011.

### Options

#### 1999 ESOS

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

#### Outstanding options – ESOS and Sharesave

None of the terms or conditions of any of the existing options over shares of the Group were varied during the year. Full details of all Directors' shareholdings and options to subscribe for shares are recorded in the Group's Register of Directors' Interests which is open to inspection by shareholders at the AGM and at the Company's registered office during standard business hours.

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

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

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

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

### Sharebuild

The Directors' interests in Sharebuild shares were as follows:

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

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

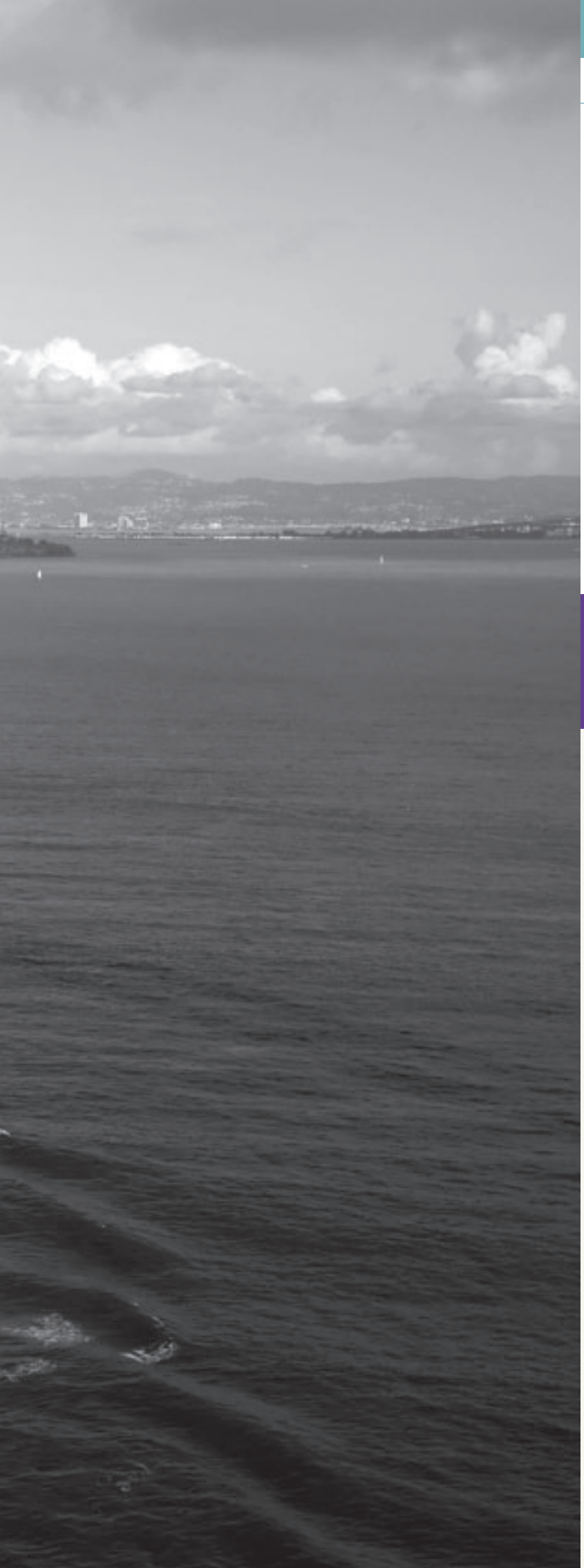
### Long Term Incentive Plan

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

Notes:

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

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



FINANCIAL STATEMENTS



# MARINE

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

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

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

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

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

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

We have examined the summary financial statements of RSA Insurance Group plc for the year ended 31 December 2011 which comprises the Summary Consolidated Income Statement, the Summary Consolidated Statement of Comprehensive Income, the Summary Consolidated Statement of Changes in Equity, the Summary Consolidated Statement of Financial Position, the Summary Consolidated Statement of Cashflows, the note in relation to Estimation Techniques, Risk, Uncertainties and Contingencies, and the information in the Remuneration Report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 428 of the Companies Act 2006. Our work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, for our audit report, or for the opinions we have formed.

## Respective responsibilities of directors and auditors

The directors are responsible for preparing the Summary Financial Statements in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the Summary Financial Statements within the Annual Review and Summary Financial Statements, with the Consolidated Financial Statements, the Directors' Remuneration Report and the Directors' and Corporate Governance Report, and its compliance with the relevant requirements of section 428 of the Companies Act 2006 and the regulations made thereunder.

We also read the other information contained in the Annual Review and Summary Financial Statements as described in the contents section, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Summary Financial Statements.

We conducted our work in accordance with Bulletin 2008/3 issued by the Auditing Practices Board. Our report on the company's Consolidated Financial Statements describes the basis of our audit opinions on those Financial Statements, the Directors' Remuneration Report, and the Directors' Report and Corporate Governance Report.

## Opinion

In our opinion, the Summary Financial Statements are consistent with the Consolidated Financial Statements, the Directors' and Corporate Governance Report and the Directors' Remuneration Report of RSA Insurance Group plc for the year ended 31 December 2011 and comply with the applicable requirements of section 428 of the Companies Act 2006, and the regulations made thereunder.

**Deloitte LLP**
Chartered Accountants and Statutory Auditors
London, UK
22 February 2012

# SUMMARY CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2011

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

The total emoluments of the Directors were **£6,062k** (2010: £5,004k).

## SUMMARY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2011

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

## SUMMARY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2011

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

# SUMMARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2011

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

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

**George Culmer**
Chief Financial Officer

# SUMMARY CONSOLIDATED STATEMENT OF CASHFLOWS

for the year ended 31 December 2011

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

# ESTIMATION TECHNIQUES, RISKS, UNCERTAINTIES AND CONTINGENCIES

## Introduction

One of the purposes of insurance is to enable policyholders to protect themselves against uncertain future events. Insurance companies accept the transfer of uncertainty from policyholders and seek to add value through the aggregation and management of these risks.

The uncertainty inherent in insurance is inevitably reflected in the financial statements of insurance companies. The uncertainty in the financial statements principally arises in respect of the insurance contract liabilities of the company.

The insurance contract liabilities of an insurance company include the provision for unearned premiums and unexpired risks and the provision for losses and loss adjustment expenses. Unearned premiums and unexpired risks represent the amount of income set aside by the company to cover the cost of claims that may arise during the unexpired period of risk of insurance policies in force at the end of the reporting period. Outstanding claims represent the company's estimate of the cost of settlement of claims that have occurred by the end of the reporting period but have not yet been finally settled.

In addition to the inherent uncertainty of having to make provision for future events, there is also considerable uncertainty as regards the eventual outcome of the claims that have occurred by the end of the reporting period but remain unsettled. This includes claims that may have occurred but have not yet been notified to the company and those that are not yet apparent to the insured.

As a consequence of this uncertainty, the insurance company needs to apply sophisticated estimation techniques to determine the appropriate provisions.

## Estimation techniques

Claims and unexpired risks provisions are determined based upon previous claims experience, knowledge of events and the terms and conditions of the relevant policies and on interpretation of circumstances. Particularly relevant is experience with similar cases and historical claims payment trends. The approach also includes the consideration of the development of loss payment trends, the potential longer term significance of large events, the levels of unpaid claims, legislative changes, judicial decisions and economic, political and regulatory conditions.

Where possible, the Group adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The Group's estimates of losses and loss expenses are reached after a review of several commonly accepted actuarial projection methodologies and a number of different bases to determine these provisions. These include methods based upon the following:

- The development of previously settled claims, where payments to date are extrapolated for each prior year
- Estimates based upon a projection of claims numbers and average cost
- Notified claims development, where notified claims to date for each year are extrapolated based upon observed development of earlier years
- Expected loss ratios.

In addition, the Group uses other methods such as the Bornhuetter-Ferguson method, which combines features of the above methods. The Group also uses bespoke methods for specialist classes of business. In selecting its best estimate, the Group considers the appropriateness of the methods and bases to the individual circumstances of the provision class and underwriting year. The process is designed to select the most appropriate best estimate.

Large claims impacting each relevant business class are generally assessed separately, being measured either at the face value of the loss adjusters' estimates or projected separately in order to allow for the future development of large claims.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability.

The provisions for losses and loss adjustment expenses are subject to close scrutiny both within the Group's business units and at Group Corporate Centre. In addition, for major classes where the risks and uncertainties inherent in the provisions are greatest, regular and ad hoc detailed reviews are undertaken by advisers who are able to draw upon their specialist expertise and a broader knowledge of current industry trends in claims development. As an example, the Group's exposure to asbestos and environmental pollution is examined on this basis. The results of these reviews are considered when establishing the appropriate levels of provisions for losses and loss adjustment expenses and unexpired periods of risk.

It should be emphasised that the estimation techniques for the determination of insurance contract liabilities involve obtaining corroborative evidence from as wide a range of sources as possible and combining these to form the overall estimate. This technique means that the estimate is inevitably deterministic rather than stochastic.

The pension assets and pension and post retirement liabilities are calculated in accordance with International Accounting Standard 19 (IAS 19). The assets, liabilities and income statement charge, calculated in accordance with IAS 19, are sensitive to the assumptions made from time to time, including inflation, interest rate, investment return and mortality. IAS 19 compares, at a given date, the current market value of a pension fund's assets with its long term liabilities, which are calculated

using a discount rate in line with yields on 'AA' rated bonds of suitable duration and currency. As such, the financial position of a pension fund on this basis is highly sensitive to changes in bond rates and will also be impacted by changes in equity markets.

### Uncertainties and contingencies

The uncertainty arising under insurance contracts may be characterised under a number of specific headings, such as:

- Uncertainty as to whether an event has occurred which would give rise to a policyholder suffering an insured loss
- Uncertainty as to the extent of policy coverage and limits applicable
- Uncertainty as to the amount of insured loss suffered by a policyholder as a result of the event occurring
- Uncertainty over the timing of a settlement to a policyholder for a loss suffered.

The degree of uncertainty will vary by policy class according to the characteristics of the insured risks and the cost of a claim will be determined by the actual loss suffered by the policyholder.

There may be significant reporting lags between the occurrence of the insured event and the time it is actually reported to the Group. Following the identification and notification of an insured loss, there may still be uncertainty as to the magnitude and timing of the settlement of the claim. There are many factors that will determine the level of uncertainty such as inflation, inconsistent judicial interpretations and court judgments that broaden policy coverage beyond the intent of the original insurance, legislative changes and claims handling procedures.

The establishment of insurance contract liabilities is an inherently uncertain process and, as a consequence of this uncertainty, the eventual cost of settlement of outstanding claims and unexpired risks can vary substantially from the initial estimates, particularly for the Group's long tail lines of business. The Group seeks to provide appropriate levels of provisions for losses and loss adjustment expenses and provision for unexpired risks taking the known facts and experience into account.

The Group has exposures to risks in each class of business within each operating segment that may develop and that could have a material impact upon the Group's financial position. The geographic and insurance risk diversity within the Group's portfolio of issued insurance policies mean it is not possible to predict whether material development will occur and, if it does occur, the location and the timing of such an occurrence. The estimation of insurance contract liabilities involves the use of judgments and assumptions that are specific to the insurance risks within each territory and the particular type of insurance risk covered. The diversity of the insurance risks results in it not being possible to identify individual judgments and assumptions that are more likely than others to have a material impact on the future development of the insurance contract liabilities.

The sections below identify a number of specific risks relating to asbestos and environmental claims. There may be other classes of risk which could develop in the future and that could have a material impact on the Group's financial position.

The Group evaluates the concentration of exposures to individual and cumulative insurance risk and establishes its reinsurance policy to reduce such exposure to levels acceptable to the Group.

### Asbestos and environmental claims

The estimation of the provisions for the ultimate cost of claims for asbestos and environmental pollution is subject to a range of uncertainties that is generally greater than those encountered for other classes of insurance business. As a result it is not possible to determine the future development of asbestos and environmental claims with the same degree of reliability as with other types of claims, particularly in periods when theories of law are in flux. Consequently, traditional techniques for estimating provisions for losses and loss adjustment expenses cannot wholly be relied upon and the Group employs specialised techniques to determine provisions using the extensive knowledge of both internal asbestos and environmental pollution experts and external legal and professional advisors.

Factors contributing to this higher degree of uncertainty include:

- The long delay in reporting claims from the date of exposure (for example, cases of mesothelioma can have a latent period of up to 40 years). This makes estimating the ultimate number of claims the Group will receive particularly difficult
- Issues of allocation of responsibility among potentially responsible parties and insurers
- Emerging court decisions and the possibility of retrospective legislative changes increasing or decreasing insurer liability
- The tendency for social trends and factors to influence court awards
- Developments pertaining to the Group's ability to recover reinsurance for claims of this nature
- For US liabilities from the Group's London market business, developments in the tactics of US plaintiff lawyers and court decisions and awards.

### Potential change in discount rate for lump sum damages awards

Legislative changes may affect the Group's liability in respect of unsettled claims in the use of predetermined factors used by courts to calculate compensation claims. For example, in the UK, standard formulae are used as an actuarial measure by the courts to assess lump sum damages awards for future losses (typically loss of earnings arising from personal injuries and fatal accidents). The calibration of these standard formulae can be updated by the UK Government and the Lord Chancellor may review the methodology to be applied in determining the discount rate to calculate the appropriate settlements, or the discount rate itself, in due course. A reduction in the prescribed discount rate would increase the value of future claims settlements.

### Acquisitions and disposals

The Group makes acquisitions and disposals of businesses as part of its normal operations. All acquisitions are made after due diligence, which will include, amongst other matters, assessment of the adequacy of claims reserves, assessment of the recoverability of reinsurance balances, inquiries with regard to outstanding litigation and inquiries of local regulators and taxation authorities. Consideration is also given to potential costs, risks and issues in relation to the integration of any proposed acquisitions with existing RSA operations. The Group will seek to receive the benefit of appropriate contractual representations and warranties in connection with any acquisition and, where necessary, additional indemnifications in relation to specific risks although there can be no guarantee that these processes and any such protection will be adequate in all circumstances. The Group may also provide relevant representations, warranties and indemnities to counterparties on any disposal. While such representations, warranties and indemnities are essential components of many contractual relationships, they do not represent the underlying purpose for the transaction.

These clauses are customary in such contracts and may from time to time lead to the Group receiving claims from counterparties.

### Contracts with third parties

The Group enters into joint ventures, outsourcing contracts and distribution arrangements with third parties in the normal course of its business and is reliant upon those third parties being willing and able to perform their obligations in accordance with the terms and conditions of the contracts.

### Litigation, disputes and investigations

The Group, in common with the insurance industry in general, is subject to litigation, mediation and arbitration, and regulatory, governmental and other sectoral inquiries and investigations in the normal course of its business. In addition, the Group is exposed to the risk of litigation in connection with its former ownership of the US operation. The directors do not believe that any current mediation, arbitration, regulatory, governmental or sectoral inquiries and investigations and pending or threatened litigation or dispute will have a material adverse effect on the Group's financial position, although there can be no assurance that losses or financial penalties resulting from any current mediation, arbitration, regulatory, governmental or sectoral inquiries and investigations and pending or threatened litigation or dispute will not materially affect the Group's financial position or cashflows for any period.

### Reinsurance

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

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

### Investment risk

The Group is exposed to market risk and credit risk on its invested assets. Market risk includes the risk of potential losses from adverse movements in market rates and prices including interest rates, equity prices, property prices and foreign exchange rates. The Group's exposure to market risks is controlled by the setting of investment limits in line with the Group's risk appetite. From time to time the Group also makes use of derivative financial instruments to reduce exposure to adverse fluctuations in foreign exchange rates and equity markets. The Group has strict controls over the use of derivative instruments.

Credit risk includes the non performance of contractual payment obligations on invested assets and adverse changes in the credit worthiness of invested assets including exposures to issuers or counterparties for bonds, equities, deposits and derivatives. Limits are set at both a portfolio and counterparty level based on likelihood of default to manage the Group's overall credit profile and specific concentrations within risk appetite. The Group's insurance investment portfolios are concentrated in listed securities with very low levels of exposure to assets without quoted market prices. The Group uses model based analysis to verify asset values when market values are not readily available.

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

### Rating environment

The ability of the Group to write certain types of insurance business is dependent on the maintenance of the appropriate credit ratings from the rating agencies. The Group has the objective of maintaining single 'A' ratings. At the present time the ratings are 'A' (positive outlook) from S&P[1], 'A' (stable outlook) from AM Best and 'A2' (stable outlook) from Moody's. A worsening in the ratings could have an adverse impact on the ability of the Group to write certain types of general insurance business.

In assessing credit risk in relation to reinsurance and investments, the Group takes into account a variety of factors, including credit rating. If any such rating changes, or is otherwise reassessed, this has potential implications for the related exposures.

### Foreign exchange risk

The Group publishes consolidated financial statements in Pounds Sterling. Therefore, fluctuations in exchange rates used to translate other currencies, particularly other European currencies and the Canadian Dollar, into Pounds Sterling will impact the reported consolidated financial position, results of operations and cashflows from period to period. These fluctuations in exchange rates will also impact the Pound Sterling value of, and the return on, the Group's investments.

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

### Regulatory environment

The legal, regulatory and accounting environment is subject to significant change in many of the jurisdictions in which the Group operates, including developments in response to changes in the economic and political environment and the recent financial crisis. The Group continues to monitor the developments and react accordingly.

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

Notes:

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

THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK

OTHER INFORMATION



# RISK MANAGED

OUR RISK MANAGED BUSINESS DEALS WITH LARGE, CORPORATE AND MULTI-NATIONAL COMPANIES, USUALLY WITH TURNOVERS IN EXCESS OF £100M. OUR TEAM PROVIDES CUSTOMISED INSURANCE AND RISK MANAGEMENT SOLUTIONS FOR BUSINESSES WHEREVER THEY OPERATE.

Businesses of this size and scale often have unique and complex insurance needs, and those which operate on a global basis require an insurer with an in-depth knowledge of insurance issues that transcend international boundaries.

Many of our customers have similar insurance requirements, but require their own specific underwriting and risk management solutions.

Our bespoke solutions allow us to provide that flexibility and innovation in our insurance policies, whilst ensuring there are no gaps in cover. We employ a large number of experienced underwriters across all major industry sectors with expertise in complex, non-conventional arrangements and compliance programmes.

Our extensive range of insurance products includes

- Property Damage
- Casualty
- Business Interruption
- Professional and Financial Risks
- Marine
- Construction and Engineering.

Risk management is a core part of our offering. By working closely with brokers and customers to identify and assess risks, we are able to build comprehensive and bespoke risk improvement programmes. This proactive focus on risk management and improvement can help minimize the likelihood of large and devastating losses, providing further reassurance to our customers.

# SHAREHOLDER INFORMATION

### Full Annual Report and Accounts

This document contains a summary of certain information in our Annual Report and Accounts for the year ended 31 December 2011 and does not include all the information needed to give a full understanding of the results and state of affairs, risks and uncertainties of the Company and the Group as would be provided by the full financial statements, Directors' and Corporate Governance Report, Remuneration Report and Auditor's Report contained in the Annual Report and Accounts which is available free of charge to shareholders upon request to the Company's registrar or to download from **www.rsagroup.com/ar2011.**

The Auditor's Report in the 2011 Annual Report and Accounts was unqualified and does not include a statement under section 498(2) or section 498(3) of the Companies Act 2006.

### Registered Office and Group Corporate Centre

9th Floor, One Plantation Place, 30 Fenchurch Street,
London EC3M 3BD. Telephone: +44(0) 20 7111 7000.
Registered in England and Wales No. 2339826.

### Group website

RSA's corporate website provides shareholders with a broad range of information about RSA's heritage, social and environmental responsibilities and investor information such as the Group's financial statements, current and historic share prices, AGM materials, events, governance information and answers to frequently asked questions in respect of shareholder matters. You may visit the investor website at **www.rsagroup.com/rsa/pages/ir/irhome.**

### Registrar

The Company's share register is maintained by Equiniti Limited. Queries regarding your shareholding should be addressed to Equiniti at the following address:

Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA
Telephone: 0871 384 2048

Overseas callers should use +44(0) 121 415 7064. Shareholders with a text phone facility should use +44(0) 871 384 2255 or alternatively use the Text Relay service by dialing 18001 0121 415 7064 directly from the text phone.

Please quote your shareholder reference number (on your share certificate and dividend tax vouchers) when contacting or corresponding with Equiniti. Calls are charged at 8p per minute from a BT landline. Other telephone providers' costs may vary. Telephone lines are open from 8.30am to 5.30pm Monday to Friday.

### Annual General Meeting

Ordinary shareholders are invited to attend the Company's Annual General Meeting (AGM), which will be held at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE at 11.00am on 14 May 2012. Ordinary shareholders who are unable to attend the AGM to ask a question in person are invited to send the Chairman an email via the Company's website or to write to the Chairman at the Registered Office address above.

### Electronic communications

Changes to legislation allows companies greater flexibility when communicating with shareholders and allows corporate websites to be used as a primary source of information. By communicating with shareholders electronically RSA is able to distribute messages to all its shareholders instantaneously. Shareholders who register for electronic communications are more informed, receiving emails when our results are released. Shareholders may elect to receive paper copies of the Annual Report and Accounts by writing to or telephoning the Registrar.

You can elect to receive email notifications of shareholder communications by registering at **www.shareview.co.uk** where you can also set up a bank mandate to receive dividends directly to your bank account and submit proxy votes for shareholder meetings. Receiving the Company's communications electronically allows the Company to communicate with its shareholders in a more environmentally friendly, cost effective and timely manner.

### Dividends

Shareholders are encouraged to have their dividends paid directly into their bank account as it is more secure than receiving cheques by post and ensures that cleared funds are available to shareholders on the dividend payment date. Those receiving dividends in this method are sent a consolidated tax voucher in March, showing both payments in the respective tax year. To take advantage of this convenient method of payment visit **www.shareview.co.uk** or contact Equiniti.

### Scrip Dividend Scheme

RSA offers shareholders the opportunity to use their dividends to buy more ordinary shares in the Company by participating in the Company's Scrip Dividend Scheme. The Scheme applies to both interim and final dividends and enables shareholders to increase their holding in the Company without incurring dealing costs or stamp duty. If you wish to receive a scrip dividend instead of a cash dividend for future dividends on which a scrip alternative is offered, please contact Equiniti.

### Share ownership

RSA is listed on the London Stock Exchange under the code RSA. The average total daily trading volume during 2011 was approximately 4.1m ordinary shares. The closing market price of an ordinary share on 4 January 2011 was 128.8p and the closing market price on 30 December 2011 was 105.2p. The highest daily closing price of an ordinary share was 143.5p on 17 February 2011 and the lowest daily closing price was 99.6p on 16 December 2011. Further details of the ordinary and preference shares are found in note 18 on pages 120 to 122 of the full Annual Report and Accounts.

Distribution of shares by geography (%)

| | |
|---|---|
| UK | 70 |
| USA and Canada | 12 |
| Europe | 12 |
| Asia and others | 6 |

Analysis of investors (%)

| | |
|---|---|
| Unit trusts/Mutual funds | 52 |
| Private/Retail | 15 |
| Pension funds | 14 |
| Other | 14 |
| Insurance | 5 |

Shareholdings by size

| No. of shares | Shareholders | % | Shares | % |
|---|---|---|---|---|
| 1 – 24,999 | 42,978 | 96.14 | 117,392,194 | 3.32 |
| 25,000 – 99,999 | 866 | 1.94 | 38,849,430 | 1.10 |
| 100,000 – 499,999 | 385 | 0.86 | 90,451,784 | 2.56 |
| 500,000 – 999,999 | 126 | 0.28 | 88,848,562 | 2.52 |
| 1,000,000 – 1,999,999 | 111 | 0.25 | 156,046,961 | 4.42 |
| 2,000,000 and above | 239 | 0.53 | 3,039,432,299 | 86.08 |
| **Total** | **44,705** | **100** | **3,531,021,230** | **100** |

Managing your shareholding

Share register fraud: protecting your investment

It is required by law that our shareholder register is available for public inspection and we are unable to control the use of information obtained by persons inspecting the register. Shareholders are advised to be wary of any unsolicited advice, offers to buy shares at a discount, or offers of free reports about the Company. Details of any share dealing facilities that the Company endorses will be included in Company mailings or on our website. If you receive any unsolicited advice, make sure you get the correct name of the person and organisation and check that they are appropriately authorised by the FSA by visiting **www.fsa.gov.uk/fsaregister**. More information on protecting your investment can be found at **www.fsa.gov.uk/consumerinformation/stay_safe.**

Tips on protecting your shares

- Keep any documentation that contains your shareholder reference number in a safe place and destroy any documentation which you no longer need by shredding it
- Inform Equiniti promptly when you change your address
- Be aware of dividend payment dates and contact Equiniti if you do not receive your dividend cheque, or better still, make arrangements to have the dividend paid directly into your bank account
- Consider holding your shares electronically in a CREST account via a nominee.

Amalgamation of accounts

Shareholders who receive duplicate sets of Company mailings owing to multiple accounts in their name should contact Equiniti to request that their accounts be amalgamated.

Low cost share dealing facilities

Shareholders may purchase or sell their ordinary shares in RSA through their stockbroker, a high street bank or one of the providers detailed below:

RSA's registrar, Equiniti offers a telephone and internet dealing service. Commission is currently 1.5% with a minimum charge of £35 for telephone dealing and currently 1.5% with a minimum charge of £30 for internet dealing. For telephone sales call +44(0) 845 6037 037 between 8.30am and 4.30pm, Monday to Friday. For internet sales log on to **www.shareview.co.uk/dealing**. You will need your shareholder reference number as shown on your share certificate.

Stocktrade also offer a telephone dealing service. Commission is currently 0.5% on amounts up to £10,000 and 0.2% on the excess thereafter, all of which are subject to a minimum charge of £17.50. A postal dealing service is also available upon request. For telephone sales call +44(0) 845 6010 995 between 8.00am and 4.30pm, Monday to Friday. Please quote reference: Low Cost 331. Alternatively visit their website **www.stocktrade.co.uk.**

Please note that rates are as at February 2012 and may be subject to change. Please contact either provider for further guidance on their full terms and conditions.

ShareGift

Shareholders with a small number of shares, the value of which makes it uneconomic to sell them, may wish to consider donating them to charity through ShareGift, a registered charity administered by The Orr Mackintosh Foundation, registered charity number 1052686. The relevant share transfer form can be obtained from Equiniti. Further details can be obtained from **www.sharegift.org** or by calling +44(0) 20 7930 3737.

# FINANCIAL CALENDAR

**29 February 2012**
Ex dividend date for the first preference share dividend for 2012.

**2 March 2012**
Record date for the first preference dividend for 2012.

**28 March 2012**
Ex dividend date for the ordinary final dividend for 2011.

**30 March 2012**
Payment date for the first preference dividend for 2012 and record date for the ordinary final dividend for 2011.

**4 April 2012**
Announcement of the scrip dividend price for the ordinary final dividend for 2011.

**3 May 2012**
Q1 2012 interim management statement.

**4 May 2012**
Deadline for the receipt of scrip dividend mandates by Equiniti in relation to the ordinary final dividend for 2011.

**14 May 2012**
Annual General Meeting at the Queen Elizabeth II Conference Centre.

**25 May 2012**
Payment date for the ordinary final dividend for 2011 (subject to shareholder approval at the AGM).

**2 August 2012***
Announcement of the half year results for the six months ended 30 June 2012, the ordinary interim dividend for 2012 and the second preference dividend for 2012.

**8 August 2012***
Ex dividend date for the second preference dividend for 2012.

**10 August 2012***
Record date for the second preference dividend for 2012.

**26 September 2012***
Ex dividend date for the ordinary interim dividend for 2012.

**28 September 2012***
Record date for the ordinary interim dividend for 2012.

**1 October 2012***
Payment date for the second preference dividend for 2012.

**3 October 2012***
Announcement of the scrip dividend price for the ordinary interim dividend for 2012.

**26 October 2012***
Deadline for the receipt of scrip dividend mandates by Equiniti in relation to the ordinary interim dividend for 2012.

**8 November 2012**
Q3 2012 interim management statement.

**23 November 2012***
Payment of the ordinary interim dividend for 2012.

* Provisional date

# JARGON BUSTER

Below is a simple explanation of some of the key technical terms used within this report.

| Term | Definition |
|---|---|
| Affinity | • Selling insurance through a partner's distribution network, usually to a group of similar customers, e.g. store card holders, alumni groups, unions and utility company customers. |
| Bancassurance | • Selling insurance through a bank's distribution network. |
| Capacity | • Largest amount of insurance available from a company<br>• Can also refer to the largest amount of insurance or reinsurance available in the marketplace. |
| Capital | • The money invested in the Group. This includes the money invested by shareholders and profits retained within the Group. |
| Claims Frequency | • Average number of claims per policy over the year. |
| Claims Handling Expenses | • The administrative cost of processing a claim (salary costs, costs of running claims centres, etc. and allocated shares of the costs of head office units). Not the cost of the claim itself. |
| Claims Ratio (Loss Ratio) | • Percentage of Net Earned Premiums which is paid out in claims and Claims Handling Expenses. |
| Claims Reserve (Provision for Losses and Loss Adjustment Expenses) | • Reserve established by the Group to reflect the estimated cost of claims payments and related expenses that we estimate we will ultimately be required to pay. |
| Claims Severity | • Average cost of claims incurred over the period. |
| Combined Operating Ratio (COR) | • The sum of the Claims Ratio and Expense Ratio<br>• Measures how much we pay out in claims and expenses for each unit of net premium received<br>• A COR of less than 100% indicates that we are writing profitable business<br>• Calculated as:<br>$\frac{\text{Net Incurred Claims}}{\text{Net Earned Premiums}}\% + \frac{\text{Expenses (including commissions)}}{\text{Net Written Premiums}}\%$ |
| Commission | • An amount paid to an intermediary such as a broker for generating business. |
| Commission Ratio | • Ratio of net commission costs to Net Written Premiums. |
| Current Year Result | • The underwriting profit or loss earned from business for which protection has been provided in the current financial period. |
| Earned Premium | • The portion of an insurance premium for which we have already provided protection. |
| Economic Capital | • The Group's assessment of the capital we must hold to have a high confidence of meeting our obligations given our risk appetite. |
| Expense Ratio | • Percentage of Net Written Premiums which is paid out in operating expenses e.g. salaries, premises costs, etc. The ratio does not include claims related expenses but can include or exclude commissions. |
| Exposure | • A measurement of risk we are exposed to through the premiums we have written. For example, in motor insurance one vehicle insured for one year is one unit of exposure. |
| Financial Services Authority (FSA) | • The regulatory authority for the UK financial services industry (or its successor(s) for the UK insurance industry). |
| Gross Written Premium (GWP) | • Total premium written or processed in the period, irrespective of whether it has been paid. |
| IBNR (Incurred but Not Reported) | • A reserve for accidents or incidents that have occurred but which have not yet been reported to us. |
| IGD Capital Requirement | • Insurance Groups Directive capital is the capital the Group is required to hold based on standard calculations defined by the FSA under the EU Solvency I directive. |
| Insurance Result | • This is a measure of how well we have done, including both our underwriting result and investment performance. |
| Net Asset Value (NAV) | • The value of the Group calculated by subtracting our total liabilities including loan capital from our total assets. This represents the funds that would be available to ordinary shareholders if the Group were wound up. |

# JARGON BUSTER CONTINUED

| | |
|---|---|
| Net Earned Premium (NEP) | • The portion of Net Written Premiums for which we have already provided protection. This is included as income in the period. |
| Net Incurred Claims (NIC) | • The total claims cost incurred in the period less any share to be paid by reinsurers. It includes both claims payments and movements in claims reserves in the period. |
| Net Written Premium (NWP) | • Net Written Premium is premium written or processed in the period, irrespective of whether it has been paid, less the amount paid out in reinsurance premiums. |
| Operating Profit | • The profit generated by the ordinary activities of the Group including both insurance and investment activity. |
| Portfolio Management | • Management of a group of similar risks, these are usually grouped by geography and line of business. |
| Prior Year Result | • Profit or loss generated by settling claims incurred in a previous year at a better or worse level than the previous estimated cost. |
| Property and Casualty (P&C) (Non Life Insurance or General Insurance) | • Property insurance covers loss or damage through fire, theft, floods, storms and other specified risks. Casualty insurance primarily covers losses arising from accidents that cause injury to other people or damage to the property of others. |
| Rate | • The price of a unit of insurance based on a standard risk for one year. Actual premium charged to the customer may differ from the rate due to individual risk characteristics and marketing discounts. |
| Reinsurance | • The practice whereby we transfer part or all of the risk we have accepted to another insurer (the reinsurer). |
| Run-off | • A situation where an insurer is no longer underwriting new business but continues to meet its liabilities under existing contracts. |
| Solvency II | • New capital adequacy regime for the European insurance industry. Establishes a revised set of EU wide capital requirements and risk management standards. |
| Scrip Dividend | • Where shareholders choose to receive the dividend in the form of additional shares rather than cash. The Group issues new shares to meet the scrip demand. |
| Total Shareholder Return | • A measure of performance based on the overall value to shareholders of their investment in the Group over a period of time. Includes the movement in the share price and dividends paid, expressed as a percentage of the share price at the beginning of the period. |
| Underlying Return on Average Equity | • A measure of the profits the Group earns, adjusted for profit/loss on disposal of subsidiaries, reorganisation and integration costs and acquisition costs, relative to average funds attributable to ordinary shareholders. |
| Underwriting Result | • This is a measure of how well the Group has done excluding its investment performance and is calculated as: NEP – Claims (including Claims Handling Expenses) – Expenses (including commissions). |
| Unearned Premium | • The portion of a premium that relates to future periods, for which protection has not yet been provided, irrespective of whether the premium has been paid or not. |
| Yield | • Rate of return on an investment in percentage terms<br>• The dividend payable on a share expressed as a percentage of the market price. |

THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK

THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK

www.rsagroup.com

Designed and produced by Addison
www.addison.co.uk

Directors' photography by Homer Sykes and Liam Bailey
Executive Team by Liam Bailey
Photography for the front cover supplied by Getty Images
Photography for pages 16 and 17, 38 and 39, 64 and 65, 76 and 77 supplied by Shutterstock Images

Printed by Royle Print on Amadeus 50/50 silk which has 50% Recovered Fibre. The paper and the printer are FSC accredited. The printer is accredited ISO 14001 and is a Carbon Neutral Printing Company.