

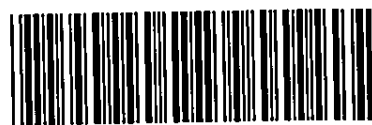
RSA INSURANCE GROUP PLC

300 YEARS OF UNDERWRITING PROGRESS

ANNUAL REPORT
AND ACCOUNTS 2009

Company number 2339826

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COMPANIES HOUSE

TECHNICAL EXPERTISE AND EXPERIENCE WORLDWIDE

Leading

Ireland

We are a leading provider of Household insurance, covering one in every five Irish homes

5th largest

Canada

5th largest overall, we are the largest Marine insurer and, through our Johnson operation, a leading direct insurer

No.1 direct

Central and Eastern Europe

We now own 100% of Intouch, the leading Direct Motor insurer in Poland, the Czech Republic and Russia

No.1

Latin America

We are the number 1 in Chile, and the largest private insurer in Uruguay

Leading

Brazil

We are a leading Marine insurer

2nd largest

UK

We are the 2nd largest
Commercial and the 4th
largest Personal insurer

3rd largest

Scandinavia

We are the 3rd largest insurer in
Denmark and Sweden through
Codan and Trygg-Hansa respectively

Leading

Middle East

RSA Middle East has won
'General Insurer of the Year'
for 3 consecutive years

No.1

Baltics

We are the number 1 general
insurer across the Baltics

3rd fastest

India

We were the 3rd fastest growing
general insurer in the market in 2009

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WE ARE A LEADING GENERAL INSURER OPERATING IN 34 COUNTRIES AND PROVIDING PRODUCTS AND SERVICES IN OVER 130 COUNTRIES.

2009 WAS A GOOD YEAR FOR THE GROUP IN CHALLENGING CONDITIONS AND WE DELIVERED ANOTHER STRONG PERFORMANCE.

WE HAVE A DIVERSIFIED PORTFOLIO OF BUSINESSES WITH ATTRACTIVE MARKET POSITIONS AND REMAIN COMMITTED TO DRIVING TOP AND BOTTOM LINE GROWTH.

AS WE ENTER OUR 300TH YEAR, WE ARE CONFIDENT OF OUR ABILITY TO CONTINUE TO DELIVER EXCELLENT RESULTS.

This Annual Report and Accounts contains forward-looking statements with respect to certain of the Group's plans and its current goals and expectations relating to its future financial condition, performance, results, strategic initiatives and objectives. For further details, reference should be made to the 'important disclaimer' on the inside back cover. Pages 6 to 41 constitute the business review of RSA and are incorporated by reference into the Directors' report set out on pages 43 to 46. The Directors' 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.

HIGHLIGHTS

STRONG GROUP PERFORMANCE IN CHALLENGING CONDITIONS

Combined operating ratio (COR) The ratio of claims costs and expenses (including commissions) to premiums

RSA AT A GLANCE

OUR PERFORMANCE IN 2009
HAS AGAIN DEMONSTRATED
THE BENEFITS OF OUR
STRONG AND DIVERSIFIED
PORTFOLIO

INTERNATIONAL

REGIONAL FOOTPRINT

International comprises our businesses in the mature markets of Scandinavia, Canada, Ireland and Italy

MARKET POSITION

Through Codan in Denmark and Trygg-Hansa in Sweden, we are the third largest insurer in both markets. We also have a growing presence in Norway and a niche Manne business in Finland.

We are Canada's fifth largest general insurer and the largest Manne insurer. Through Johnson, our leading direct business, we are the second largest Affinity writer.

In Ireland, we distribute via brokers and are a leading provider of Household insurance, covering one in every five Irish homes.

Our Italian business is focused primarily in the north of the country, distributing products through a network of non-tied agents and brokers.

UK

REGIONAL FOOTPRINT

We offer a wide range of insurance products and services to both Commercial and Personal clients in the UK

We also provide bespoke insurance to multinational companies through our Risk Solutions network across Belgium, France, Germany, Italy, the Netherlands and Spain

MARKET POSITION

We are the UK's second largest Commercial insurer with a reputation for technical excellence. Outside of Lloyd's we are the UK's leading Marine insurer and second in both Commercial Property and Motor

We are the fourth largest Personal lines insurer in the UK overall, as well as being fourth in Motor, Home and Pet. We operate in the Broker and Affinity channels as well as directly through our MORE TH>N® brand

EMERGING MARKETS

REGIONAL FOOTPRINT

Emerging Markets operates across 21 developing insurance markets, spanning Latin America, Asia and the Middle East and Central and Eastern Europe

MARKET POSITION

In Latin America, we are the largest general insurer in Chile, the largest private insurer in Uruguay and a leading Marine insurer in Brazil. We are also present in Mexico, Argentina and Colombia

We operate in eight countries across Asia and the Middle East. In Asia, our focus is primarily on Commercial lines through hubs in Hong Kong, Singapore and China. In India, we operate through our associate Royal Sundaram. We are a leading international insurer in the Middle East and recently became the number one in Oman

We are the number one general insurer across the Baltics and the leading direct Motor insurer in Poland, the Czech Republic and Russia

CHAIRMAN'S STATEMENT

A STRONG AND FOCUSED BUSINESS

In 2009, we have experienced an unprecedented market environment where the impact of failures in the finance and banking markets have fuelled recession. In 2010, we will be celebrating 300 years of existence providing sustainable insurance services that, by pooling individual and business risks, benefit the economy and society as a whole. A key skill throughout has been our ability to measure and price risk. Some of the failures in banks have been caused by neglect of that capacity and a pattern over a period of years where a significant number of individuals have been able to take unsustainable personal benefits from short term business practices, producing consequences detrimental to society as a whole.

The trading environment in 2009 was very challenging. Our strategy continued to have two major themes, firstly focusing on

- Excellence in our core technical competencies of underwriting and pricing
- Improving the effectiveness of our operations and standards of service, and
- Ensuring that we run a sustainable business through the economic cycle

The second theme is to focus on growth opportunities, particularly where we have leading market positions and in emerging markets. We

also continue to benefit from a combination of rigorous standards of management and specialisation in our core product sectors and our geographic footprint across the world.

One of the consequences of the monetary effects of the bank rescue has been to reduce the returns available from long term secure investments, particularly Government bonds, which we require to match and balance our long term liabilities. Our overriding policy is to keep that balance but it has had the predicted impact on our year-on-year results. The management of our funds continues to have significant Board oversight.

Despite the challenges of the 2009 markets your Company has performed strongly. In summary we have achieved

- A 4% increase in net written premiums
- A combined operating ratio (COR) of 94.6%
- An operating result of £777m, and
- Maintained a strong balance sheet and robust capital position

We continue to invest in processes and technologies to improve service standards and reduce costs. We have also maintained our focus on management development and over recent years, the number of top 100

appointments made from within has increased significantly. The Board and shareholders are particularly well served by a dedicated team of management and staff, led by our Chief Executive Andy Haste. I thank them all on our shareholders' behalf.

2009 has also seen a number of Government policy and regulatory changes and a significant number of advisory reports and initiatives related to board processes and effectiveness. There have been tensions between the more specific needs of problem sectors like banks and those of the insurance sector. Attempts to deliver a 'one size fits all' approach are inappropriate.

As a policy, your Board actively and positively engages with regulators, currently adopting a chosen approach of an intensive and detailed regulation of risk activities. We keep reminding those who will listen that we are not a bank, that risk is our business and regulatory measures should be proportionate and not incur onerous costs or unnecessary increases in capital requirements because of over-negativity and fear.

While we welcome impending European regulatory changes, particularly relating to solvency, when linked with an over-cautious regulatory response, in-country "gold plating" and variations in interpretation these may

'I AM PLEASED WITH OUR 2009 RESULTS, AND AS WE CELEBRATE OUR 300 YEAR ANNIVERSARY IN 2010, I REMAIN CONFIDENT OF ANOTHER EXCELLENT PERFORMANCE'

John Napier
Chairman

create distortions in regulatory capital needs and create competitive disadvantages by country. The relocation pressure caused by variations in tax regimes may be superseded by unwelcome new pressures caused by changes in regulatory environments.

There has also been a lot of comment and discussion and draft recommendations on changes to plc boards, the current combined code of governance and related matters. Many recommendations seem not to analyse what the real differences between effective and non-effective boards are. The greater underlying issue was that too much faith was placed in global competition as an effective regulator in itself. In these circumstances the average citizen has a right to feel that he has been let down and is now paying the consequences.

On the question of the annual election of the Chairman and/or boards, it could have the result that a Chairman appointed before an AGM could face two votes in 15 months or even less. If we compare what takes place within government, the combined Chair and Chief Executive of UK plc face elections at his or her choosing. For reasons of continuity and an opportunity to address difficult problems which take time to resolve, there would be opposition to even three-year re-elections. In public companies, we face lesser but similar issues. Maybe leaving company Chairmen to be re-elected every two years and Non-Executives every three would be a reasonable compromise, unless those advocating such change within, or at least at the behest of Government, feel the benefits are so great they would be prepared to apply the same principles to their own areas of responsibility, be it in UK plc or the great Ministries of State whose annual reporting standards are well below those of public companies.

If certain public companies "cannot be allowed to fail" their board processes will need different controls than the great majority who don't enjoy that protection. Heavyweight banking-related regulatory competence should be more targeted and not thinly spread.

Moving on, 2010 is a special year for RSA, one in which to celebrate our 300 years, to take great pride in the achievements of the Company in both serving the interests of our shareholders and customers and fulfilling a role in society that helps indirectly to promote investment in growth and the future. We don't take our success for granted, it will continue to depend on how well we exercise our stewardship on behalf of our shareholders and meet the needs of our policyholders with services that are appropriate and sustainable. Your Board continues to be wholeheartedly committed to those objectives and management is equally dedicated to their delivery.

On governance, we have further strengthened our Risk Committee and appointed Noel Harwerth as Non-Executive Chairman. Over the next two years, we will add to the Board as we ensure continuity of corporate knowledge and experience and deal with the expected retirements required by the current guidelines on the "independence" of Non-Executives.

It's with great pride that we celebrate our 300 year anniversary. Our business started in 1710 with the establishment of the Sun Fire Office. We believe that insurance should enable progress and this belief, together with our people and experience, will continue to drive us forward for the next 300 years.

In our 300th year, there is cause for optimism, although significant uncertainties remain. We will continue to be watchful, diligent and hard working. We have good products in leading market positions and a strong global footprint. We are well placed therefore to exploit any small upturn that may occur and remain confident of delivering another excellent performance. This confidence is reflected in our recommendation of an increase in the final dividend to 5.33p, giving a total increase for 2009 of 7%.

Finally, I would like to take this opportunity to thank my Board colleagues for their diligence, challenge, contribution and support.

John Napier
Chairman

GROUP CEO'S REVIEW

CONTINUED DELIVERY

2009 was a good year for the Group in challenging conditions. We delivered another strong performance and have driven the Group forward through targeted organic growth and acquisitions in Emerging Markets and International. We've continued to take the right action on rate and expenses and delivered a positive underwriting result in all regions. Our capital position remains strong.

We are confident of our ability to continue to deliver excellent results. We have a great portfolio of businesses with strong market positions and remain committed to driving top and bottom line growth.

2009 DELIVERY AGAINST STRATEGIC OBJECTIVES

- Driving the Group forward through targeted growth and acquisitions
- Continued action on rate
- On track to meet UK cost savings target
- Maintaining tight operational grip and strong financial management
- Strong capital and financial position

- Significant de-risking of pension schemes, and
- Delivering sustainable profitable performance

A STRONG FINANCIAL PERFORMANCE

In 2009, we increased premiums by 4% to £6.7bn, reflecting the impact of the economic downturn offset by our actions on targeted growth and rate.

The combined operating ratio (COR) for the Group was excellent at 94.6% and the underwriting result increased by 1% to £386m.

The total investment result was £523m and income was in line with guidance at £595m. Total gains were slightly ahead at £28m due to commercial property, which was up by £24m in the fourth quarter.

The operating result was £777m, while profit before tax of £554m was after the expected reorganisation costs for the UK cost reduction programme announced in February 2009.

The underlying return on opening equity was 12.7%, down from 18.5%, with the movement on the prior year due to the expected lower investment returns and the impact of foreign exchange on opening assets. The underlying return on average equity was 13.4%.

compared to 16.4% in 2008. Net asset value per share was up by 5% excluding the pension fund and was 99p including the pension fund.

REGIONAL OVERVIEW

INTERNATIONAL

International, our largest region, again delivered an outstanding performance and continued to drive the Group forward. Premiums increased by 8% to £3.2bn (in line with 2008 at constant exchange), reflecting continued action on rate, targeted growth and the benefit of new deals offsetting the economic downturn. The COR was an excellent 91.7% with the underwriting result increasing by 8% to £282m.

In Scandinavia, 2009 was another great year. Premiums increased by 4% to £1.7bn (down 2% at constant exchange), reflecting a strong performance in Personal, offset by a 7% reduction in Commercial, due to the impact of the downturn and reduced exposure.

In Personal lines, we delivered good growth in Swedish Personal Accident, increasing premiums by 8%. We continued to push rate across all lines of business and retention remained strong at 81%. In Norway, we increased premiums by over 25%, driven by

'2009 WAS A GOOD YEAR FOR THE GROUP IN CHALLENGING CONDITIONS. WE HAVE DELIVERED ANOTHER STRONG PERFORMANCE AS WE MOVE INTO 2010, ECONOMIC UNCERTAINTIES REMAIN, HOWEVER, WE CONTINUE TO PUSH HARD FOR PROFITABLE GROWTH'

Andy Haste
Group CEO

On 25 June, we will be hosting 'RSA Day' as part of our 300 year birthday celebrations. Employees across the Group will participate in fundraising and volunteering activities focusing on three key areas – climate, community and crime reduction – in support of our CR strategy, to increase employee engagement, build pride and demonstrate RSA's contribution to society.

growth in Affinity and our agent network. In Denmark, bancassurance again performed well and premiums increased by 10%.

We drove a significant increase in the underwriting result, up by over 25% to £242m, and the COR was 86.2% due to Personal Motor, Personal Accident and Marine. This was an excellent result and was well ahead of the assumptions used at the time of the Codan minority buyout in 2007.

In Canada, once again we delivered strong growth, with premiums increasing by 15% to over £1bn (5% at constant exchange), achieved through positive rate increases across all lines of business, a retention level of over 87% and five acquisitions in the year.

In Commercial, we built on our expertise in Risk Solutions, increasing premiums by 28% and we also saw 4% growth in mid-market. In Personal lines, Johnson again delivered another excellent performance with premiums increasing by 8% and retention of 90%.

The underwriting result increased by 11% to £63m and the COR was 93.5%. These are great results against the backdrop of severe weather conditions and significant industry losses.

£m	2009	2008	2007	2006	2005
Net written premiums	6,737	6,462	5,837	5,484	5,300
Underwriting result	386	384	278	310	263
Operating result	777	867	814	780	743
Combined operating ratio	94.6%	94.5%	94.9%	93.3%	94.1%
Underlying return on average equity	13.4%	16.4%	19.3%	19.7%	19.5%

In Other Europe, premiums increased by 9% to £559m (down 2% at constant exchange), with a COR of 105%. In Ireland, premium growth of 5% at constant exchange was driven by rate, significant new Affinity wins and the benefit of prior year acquisitions. The COR of 91% was a tremendous result and was after a £10m charge for the November floods, and reflected our early action on rate, our disciplined approach to underwriting and our prudent reinsurance programme.

We saw a contrasting performance in Italy, where I'm proud of our response to the L'Aquila earthquake. The new management team dealt with the move to Direct Indemnification and during the second

half of the year we continued to take action on the Motor portfolio. We expect to start seeing the benefit of these actions in the underwriting result going forward.

GROUP CEO'S REVIEW CONTINUED

Our continued focus on rate and risk selection ensured that we remain one of the most profitable insurers in Scandinavia, Canada and Ireland. We are confident that the International portfolio will continue to deliver good top line growth and sustained bottom line profitability.

UK

The UK remains a tough market and premiums were stable at £2.6bn. We maintained our focus on underwriting discipline, withdrawing capacity where we could not achieve our returns and targeting growth in Specialty lines.

Personal lines premiums were flat on 2008, with lower Household premiums offset by 5% growth in Motor, driven by growth in Broker Panels and Affinity. Pet also performed well and premiums increased by 17%.

In Commercial, premiums decreased by 5%, with the impact of the downturn mitigated by our actions on targeted growth and rate. Growth in European Risk Solutions of 47% and in Manne of 21% has offset capacity withdrawals in Commercial Motor and Property.

We continued to take action on rate, achieving renewal increases in Commercial of 6% in Motor, 3% in Property and 8% in Liability.

In Personal, we increased rate by 7% in Motor and by 3% in Household.

We also continued to push rate on Motor new business and achieved double digit increases in Personal lines.

The underwriting result was £75m and the COR was 98%.

On claims, we continue to review lead and performance indicators and while there are pockets where we have taken action, we are still not seeing any systemic trends relating to the economic downturn.

On costs, we achieved run rate savings of £64m and we will deliver the full £70m by the end of the first quarter, ahead of our mid 2010 target. This has been achieved at a cost of £75m, against the expected £80m for the complete programme. On headcount, we have already achieved the planned reduction of 1,200 announced in February 2009.

As we move into 2010, the UK remains competitive but we have made a good start to the year with European Risk Solutions up by 10% and Manne up by 5%. In Personal we have won deals with HomeServe and the West Bromwich Building Society.

EMERGING MARKETS

In Emerging Markets, premiums increased by 13% to £833m (2% at constant exchange). Including associates, total premiums were £954m.

In Latin America, the top line increased by 2%, driven by good growth in Affinity where we signed 13 new deals, including Citibank in Colombia, Claro in Argentina and Santander in Mexico.

In Asia and the Middle East, premiums increased by 24%, due to contract wins in Construction and Engineering. While in our associate in India, Personal Motor grew by 14%, driven by new car sales.

In Central and Eastern Europe, conditions remained tough in the Baltics. However, we maintained our market leading position, while Intouch has continued to grow.

The Emerging Markets underwriting result of £29m increased by 26%, reflecting the early actions we took to protect profitability, including headcount reductions of around 600 across Central and Eastern Europe and Asia and the Middle East.

Emerging Markets remains an attractive place to do business. In the short term, conditions will remain tough, particularly in the Baltics, but Emerging Markets have huge potential. They will return to double digit growth and we will continue to invest in the region.

STRONG FINANCIAL POSITION

The Group maintains a strong financial position with a regulatory capital surplus of £1.7bn, representing 2.4 times the requirement.

We also continue to benefit from our low risk investment strategy, with 87% of the total investment portfolio invested in high quality fixed income and cash assets. 99% of the bond portfolio is investment grade and the bond holdings are well diversified, with 73% invested in currencies other than Sterling and 54% invested in non government bonds.

We have a track record, built over many years, of de-risking our defined benefit pension schemes. In July 2009, we announced that we had protected around one third of the UK schemes' liabilities against longevity, interest rate and inflation risk. This was achieved at no additional cost to the Group. In 2010 we have continued to take action in both Ireland and the UK to further protect the Group's results by reducing volatility in the pension schemes.

TECHNICAL CAPABILITIES

A sustainable business needs to attract, develop and reward talented people, as well as making them accountable for their actions. We continue to focus on developing employees.

The RSA Technical Academy, which we launched in 2006, now has over 10,000 members across the Group and I'm delighted that our Marketing Academy, which we launched this year, was the winner of the 'Insurance Times Training Programme of the Year 2009'.

INDUSTRY OVERVIEW

FINANCIAL SERVICES WERE UNDER INTENSE SCRUTINY DURING 2009. BEING ABLE TO DISTINGUISH OURSELVES AS A PURE-PLAY GENERAL INSURER, WITH A CLEAR STRATEGY AND A RECORD OF STRONG DELIVERY WAS A KEY DIFFERENTIATOR.

At our Half Year results we talked about how declining economic activity was leading to a reduction in exposures and premiums. Mortgage lending and car sales were down, therefore new business was lower. Wage rolls were shrinking, so liability risk decreased. Businesses were selling less, so they needed less business interruption cover and with less cargo being shipped, Manne exposures were lower.

Although conditions had improved by the year end, the position remains fragile, particularly for economies such as the UK and Ireland, where the fundamental imbalances behind much of the recent turbulence, such as personal debt and trade imbalances, have not been fully resolved. A combination of consumers seeking to rebuild personal balance sheet strength and governments needing to repair their finances will weigh upon the growth outlook. It is likely that we will see further periods of weakness on the path to recovery.

Economies that have not had these types of imbalances have been far more robust. In China and India, growth has recovered quickly after only a relatively modest slowdown. Canada has also been a relative outperformer.

Given this outlook, we continue to closely monitor economic trends and other indicators and their impact on the Group. We have

continued to take the right action on rate and expenses to mitigate the impact of the downturn. We also continue to pursue our high quality, low risk investment strategy.

Our capital position remains strong and we have taken further action to de-risk our pension schemes in the UK and Ireland.

From a legislative perspective, we welcome the adoption of the Solvency II Directive, which encourages the industry to better align capital requirements with the risks they take on their balance sheets. We look forward to working with the regulators to ensure that the implementation is consistent across EU Member States and does not lead to unnecessary capital requirements.

As we move into 2010, the Group is well placed, with a strong financial position and a clear strategy. We remain confident of our ability to deliver sustainable profitable performance.

GROUP CEO'S REVIEW CONTINUED

Our Executive Development Programme is entering its sixth year, bringing together leaders from across the Group to work collaboratively on critical strategic issues and, in 2009, our Graduate and FastTrack programmes provided structured support and career paths for 42 new starters and high potential individuals

Over the last year, we also made great progress on employee engagement, with a 5% improvement across the Group, which is considered significant. 92% of employees participated in our Employee Survey and we will continue to use the insights to generate ideas and clear action plans to make further improvements across our business

CORPORATE RESPONSIBILITY

We are committed to 'Doing the Right Thing', both as individuals and as a company and continue to support three key community-based themes: road safety, social inclusion and the environment

This year, we launched a road safety reflective programme for over 2,000 children in Estonia and a new youth-focused crime prevention scheme in the UK. We also supported a number of environmental projects, including cleaning up polluted beaches in the Middle East

We officially launched our partnership with the WWF, focusing on the insurance risks of environmental change. Over the next three years, RSA will be supporting conservation projects relevant to our business including a marine protection project in Canada to help safeguard the long-term future of the fishing industry, a renewable energy project in China and a flood defence project in the UK

We remain committed to our customers and our success in improving our levels of services was recognised in the 2009 survey by the Association of British Insurers which awarded

RSA 97 out of 109, the highest score of all general insurers

Broker satisfaction is also important to us and, in Trygg-Hansa in Sweden, we received top ratings in an independent survey of brokers' perceptions of insurance companies and their products

Product innovation is key to our success and with the reinsurer Munich Re, we launched insurance4renewable, a global service that offers standard and customised insurance products and services for renewable energy products in developing countries

Our progress in 2009 was recognised by Goldman Sachs who named RSA as one of the top five global insurers in their GS Sustain report, an upgrade from Bronze to Silver in the Dow Jones Sustainability Index, moving from 'Gold' to 'Platinum' in the Times Top 100 Companies and winning the CorpComms Best Corporate Responsibility Strategy award

CONFIDENT OUTLOOK

2009 was a good year for the Group. We have great businesses with strong market positions and once again, we delivered excellent results in challenging conditions

We will continue to drive the top line and we expect to see

- Mid-single digit growth in International
- The UK moving to positive territory, and
- Double digit growth returning to Emerging Markets over time

This growth will continue to be supported by acquisitions. Since 2003, we have completed and integrated around 30 transactions and the pipeline remains strong

In the first two months of 2010, we have announced the acquisition of Sveland in Sweden and Al Ahlia, making us the number one insurer in Oman by net written premiums

On 27 February 2010, an earthquake measuring 8.8 on the Richter scale hit Chile, causing large scale damage. We mobilised our crisis response team and are supporting our local teams with Group specialists on the ground. We are thankful to report that all our staff are safe and the majority of our network was up and running within hours, despite a lack of power in some branch offices

In targeting profitable growth, we will maintain our focus on underwriting discipline and continue to take action on rate and expenses. As it stands today, we expect to deliver a combined operating ratio in 2010 of around 95%

We will also continue to take action to mitigate the impact on the investment result of lower interest rates. In 2010, we expect investment income to be around £540m and as it stands today, we expect total gains to be in line with 2009 levels

We remain confident about the outlook for the Group and our ability to continue to deliver excellent results

Andy Haste
Group CEO

GROUP STRATEGY

OUR STRATEGY

TO CONTINUE TO DELIVER SUSTAINABLE, PROFITABLE PERFORMANCE THIS DRIVES OUR CULTURE, THE MARKETS WE OPERATE IN, THE PRODUCTS WE WRITE, OUR PRUDENT RESERVING AND REINSURANCE POLICIES AND OUR HIGH QUALITY INVESTMENT STRATEGY. OUR STRATEGIC PRIORITIES REMAIN:

TARGETED PROFITABLE GROWTH

OPERATIONAL EXCELLENCE

SUSTAINABLE EARNINGS

DELIVERED THROUGH

TIGHT OPERATIONAL GRIP

We have a culture of underwriting discipline which is supported by a strong governance framework

To ensure we take the right risks at the right price, we have a clearly defined risk appetite and have exited volatile lines

We have strong underwriting controls, with every one of our underwriters licensed to write only business for which they have the relevant experience

Each insurance portfolio has its own underwriting and pricing strategy. We hold in-depth portfolio and reserve reviews to ensure this strategy is being successfully executed or remediation plans put in place

We also have a relentless focus on operational excellence and have a strong track record of delivering on our expense savings targets

We invest in our people through our market leading Technical and Marketing Academies and other development programmes and continue to retain and attract high calibre employees

STRONG FINANCIAL MANAGEMENT

The sustainability of our earnings continues to be underpinned by our strong financial management

We maintain a conservative reinsurance programme to minimise volatility in earnings from large losses and catastrophe events

We have a prudent reserving policy and continue to hold a significant margin over the best estimate of our liabilities. We therefore expect positive prior year reserve development to be a significant ongoing feature of our results

We follow a high quality, low risk investment strategy. We have continued to take action to mitigate falling yields, whilst maintaining the overall high credit quality and diversification of the portfolio

We hold significant regulatory and economic capital surpluses, as well as sufficient capital to deliver on our strategic objectives

Our financial position remains strong and we have taken action to further de-risk our pension schemes, thereby reducing their volatility and impact on the Group's balance sheet

STRONG AND DIVERSE PORTFOLIO

We derive real advantage from being a pure-play general insurer. Our focus is on doing one thing and doing it well, with rigorous control, attention to detail and the commitment to take the right action where required

The shape of the portfolio is deliberate

- Our geographic balance gives us exposure to markets at different points in the cycle and different stages of development, and
- It allows us to shift capacity to where we are able to generate the best returns

We seek to create leading positions in all our chosen markets, whether at an overall market level or segment level such as Marine or Construction & Engineering

Organic growth is supported by targeted acquisitions. We have successfully executed and integrated around 30 acquisitions since 2003

We have a great portfolio of businesses with strong positions in attractive markets and see opportunities for targeted profitable growth in all regions

GROUP STRATEGY CONTINUED

PROGRESS AGAINST STRATEGIC PRIORITIES

STRATEGIC PRIORITIES

AREAS OF FOCUS

TARGETED PROFITABLE GROWTH

- We target profitable growth in each of our markets and shift capacity to regions which offer the best returns
- Our strong customer focus and targeted propositions help us to maximise retention
- Our focus on customer differentiation for our partners and their customers is driving growth in our Affinity business, and
- We continue to make selective acquisitions in each of our markets and have also benefitted from expanding distribution

PROGRESS IN 2009

TARGETED GROWTH IN ALL REGIONS

Specialty lines including Risk Solutions and Marine grew strongly in Canada and the UK, as did bancassurance and Renewable Energy in Denmark and Construction and Engineering in Asia and the Middle East

Our reputation for Affinity is strong and we signed over 50 new deals across the Group including Tesco in Ireland and Santander in Mexico

We supported this organic growth with eight acquisitions during 2009, the largest being the remaining 50% of Intouch, our direct associate in Poland, the Czech Republic and Russia

KEY PERFORMANCE INDICATORS

2010 PRIORITIES

STRONG PORTFOLIO WITH GOOD GROWTH PROSPECTS

We remain committed to continuing to drive top and bottom line growth. Looking forward, we would expect mid-single digit growth in International, the UK to move to positive territory and Emerging Markets to return to double digit growth over time

In the first two months of 2010, we have announced two acquisitions, with Sveland in Sweden strengthening our bancassurance platform and Al Ahlia in Oman creating the largest insurer by NWP in the market.

OPERATIONAL EXCELLENCE

- We continue to drive operational excellence and deliver on our expense savings targets
- Through our investment in our Technical Academy we remain the employer of choice for those wishing to pursue a technical career
- We have established an award winning Marketing Academy to further strengthen our sales capability and
- We have instilled a strong performance culture and over 90% of our employees have their pay linked to their performance

COST SAVINGS PROGRAMMES ON TRACK

We have already achieved the UK headcount reduction of 1,200 announced in February 2009 and, as a result, UK headcount is down by over 40% since 2003

On costs, in the UK we have achieved run rate savings of £64m and expect to complete the full programme of £70m of savings in the first quarter of 2010, ahead of schedule

We also continue to make good progress towards our additional £25m cost savings target for Scandinavia announced in May 2008

COST SAVINGS PROGRAMMES TO BE COMPLETED AHEAD OF SCHEDULE

In February 2009, we announced a new UK cost savings target of £70m to be delivered by mid 2010. We expect to complete this, ahead of plan, in Q1 2010 and remain committed to achieving a UK expense ratio (excluding commissions) of around 14% by the end of 2012

SUSTAINABLE EARNINGS

- Our strong portfolio allows us to actively shift capacity to where we can achieve the best returns
- We have a tightly controlled risk appetite and have exited more volatile lines of business
- We are committed to underwriting discipline and taking the right action on rate
- Our conservative reinsurance policy reduces the potential volatility of the earnings stream
- We have prudent reserving policies, and
- We maintain a high quality investment portfolio and a strong balance sheet

OPERATING RESULT OF £777m

In 2009, the Group delivered another strong performance in what were challenging economic and market conditions

The Underwriting Result increased by 1% to £386m, driven by our action on rate and expenses. Our continued commitment to underwriting discipline is demonstrated by the excellent COR of 94.6%

As expected, the investment result of £523m was impacted by falling yields, however we continue to take measured action to enhance returns

CONTINUE TO DELIVER SUSTAINABLE PROFITABLE PERFORMANCE

We've made a good start to 2010 and are confident of our ability to continue to deliver excellent results. We will continue to push hard on rate while maintaining underwriting discipline and expect to achieve a COR of around 95% in 2010. We will continue to operate a high quality, low risk investment strategy and expect investment income to be around £540m, with total gains around 2009 levels

BUSINESS REVIEW

INTERNATIONAL

International, our largest region, consists of leading positions in the attractive markets of Scandinavia, Canada and Ireland and a niche business in Italy

KEY STRATEGIES

International remains committed to delivering sustainable profitable performance and focuses on four key areas to drive the business forward and outperform the competition

- Delivering profitable growth in target segments through expanding distribution and selected acquisitions
- Leveraging our market leading capabilities in underwriting and claims
- Driving continuous operational efficiencies across the business, and
- Promoting a high performance culture, where people want to give their best every day

Our geographic spread and segmented approach enable us to target growth in profitable segments where our technical expertise gives us competitive advantage. The ability to share best practice quickly and easily across the businesses provides

a strong platform for growth and driving operational efficiencies

Customer focus continues to be central to our propositions and we are optimising customer reach through Intermediary, Affinity and Direct channels

PROGRESS AGAINST KEY STRATEGIES

International continues to drive the Group forward and has again delivered an outstanding performance. Net written premiums are up by 8% to £3.2bn (in line with 2008 at constant exchange), reflecting continued action on rate, targeted growth and the benefit of new deals offsetting the impact of the downturn. The COR was an excellent 91.7% and International again contributed the majority of the Group's underwriting result at £282m (2008: £262m).

SCANDINAVIA

We are the third largest insurer in both Denmark and Sweden, with a growing presence in Norway.

In 2009, whilst the Scandinavian economies contracted, premiums increased by 4% to £1,669m (down 1% at constant exchange). The COR improved by 2.1 points to an excellent 86.2%, primarily driven by strong

performances in Personal Motor, Personal Accident and Marine.

In Commercial, net written premiums were in line with 2008 at £725m (down 7% at constant exchange). This reflects continued strong growth in Norway, particularly in Property and Motor; 30% growth in Renewable Energy in Denmark and the benefit of foreign exchange offset by capacity withdrawal and exposure reduction as a result of the economic downturn.

In Personal lines, premiums are up by 8% to £944m (4% at constant exchange), as a result of our rating actions across all portfolios and continued good performance in Norway Affinity and Personal Accident. In Denmark, bancassurance continues to perform well, growing at 10%. In Sweden, we have recently strengthened our bancassurance proposition with the acquisition of Sveland, announced in January 2010.

CANADA

In Canada, RSA is one of the fastest growing and most profitable insurers and has doubled in size over the last five years. In 2009, we delivered another strong performance with net written premiums up by 15% to £1,021m.

'INTERNATIONAL CONTINUES TO DRIVE THE GROUP FORWARD, DELIVERING A VERY STRONG TOP AND BOTTOM LINE PERFORMANCE IN CHALLENGING CONDITIONS'

Simon Lee
Chief Executive, International

(5% at constant exchange) The underwriting result is up by 11% to £63m, with a COR of 93.5% (2008 92.9%) despite severe weather

Commercial net written premiums increased by 12% to £243m (2% at constant exchange), reflecting strong growth in our Risk Solutions business and rate, offsetting the withdrawal of capacity in those sectors most impacted by the downturn

Personal net written premiums increased by 17% to £778m (6% at constant exchange), with Personal Intermediated up by 14% (4% at constant exchange) and Johnsons, our direct business, up by 19% (8% at constant exchange), driven by excellent retention of 90%, rate and the addition of 20 new sponsorship groups during the year

OTHER EUROPE

In Other Europe, premiums are up by 9% to £559m (down 2% at constant exchange) In Ireland, where the economy shrank by 10% in 2009, premiums have increased by 17% (5% at constant exchange) driven by action on rate, new Affinity wins and acquisitions These include Tesco and the largest Irish nurses scheme, with access to over 80,000 members and the acquisition of Benchmark Insurance

The COR for Other Europe was 105% (2008 97.1%) with Ireland achieving a very strong 91%, which included a £10m charge for the November floods

In Italy, premiums are up 2% (down 9% at constant exchange) reflecting the impact of reduced Motor premiums following actions on rate and discount management

Our response to the L'Aquila earthquake demonstrates what typifies the Group When the worst happens, we help keep people moving and we were able to play a significant role in getting life back to normal quickly

£m	2009	2008	2007	2006	2005
Net written premiums	3,249	2,998	2,513	2,334	2,221
Underwriting result	282	262	206	149	122
Combined operating ratio	91.7%	91.2%	91.3%	93.1%	93.9%

The new management team has dealt with the move to Direct Indemnification and continued to take remediation action on our Motor book We expect to see the benefit of these actions on the underwriting result during 2010

MARKET CONDITIONS

In Scandinavia, we continue to achieve single digit rate increases across most lines The economies are currently forecast to return to growth in 2010 and the market remains attractive

In Canada, the economy has weathered the global downturn well and we have continued to push mid-single digit rate across Personal lines and low single digit rate increases in Commercial

In Ireland, economic conditions remain challenging, although we have achieved double digit rate increases in Personal Household

2009 has been a challenging year in Italy as a result of changes in regulation and market practices in Personal Motor, which accounts for around 60% of the market Our new CEO and his strengthened management team are tackling these issues

OUTLOOK

We have built a track record of delivering strong top and bottom line performance Although economic conditions will continue to present some challenges in 2010, particularly in Commercial, we are sticking to our strategy of increasing rates where required In Italy, we expect to see our actions on the business start to impact the underwriting result With our ongoing actions on expenses and our strong portfolio, we are confident that we will continue to deliver mid-single digit premium growth and strong profitability in 2010

INTERNATIONAL

**THIS PART OF THE WORLD
IS WELL KNOWN FOR ITS
RUINS OF PAST CIVILISATIONS.
WE HELPED BRING IT BACK
TO LIFE.**

Living just 60 miles (100km) northeast of Rome, the residents of L'Aquila take great pride in the continuation of their traditions and way of life. It hasn't always been easy for them as earthquakes mark the history of the town which sits on a hillside in the middle of a narrow valley.

There hadn't been a serious tremor for well over 50 years, when in the early hours of 6 April 2009, while people slept in their beds, a powerful earthquake struck.

295 people died that morning. Hundreds of properties including houses, businesses, hospitals and churches were destroyed. Some 15,000 people lost their homes and were forced to seek shelter in tents or alternative accommodation.

The community urgently needed medical treatment, but the local hospital had been badly damaged by aftershocks and had closed. We sent a team of 20 claims specialists, engineers and lawyers to help. Their brief was simple, to get the hospital up and running again as quickly as possible. Important medical documents that were buried were recovered and we made an advance payment of €5 million to aid the process. In May 2009 the hospital opened its doors to patients again.

We are proud to have played our part in helping the families of L'Aquila to start to rebuild their town and their lives, it's something they've had to do many times over the centuries.

Did you know?

We insured the construction of the Confederation Bridge in Canada, which is the longest bridge in the world crossing ice-covered water.

Did you know?

Codan underwriters were instrumental in lightning protection measures that are now standard in every wind turbine globally.

BUSINESS REVIEW

UK

We are the UK's second largest Commercial and fourth largest Personal insurer with a reputation for technical excellence

KEY STRATEGIES

The UK remains one of our toughest markets. We are maintaining our strategy of targeting profitable growth, taking the right action on rate and withdrawing capacity from product lines where we cannot achieve target returns such as Professional Indemnity and Construction, which have been particularly impacted by the economic downturn.

In Commercial we are focused on segments where we see profitable growth opportunities such as Marine and Risk Solutions, which provides risk management solutions for large businesses worldwide.

In Personal, we continue to focus on customer segmentation and targeted pricing to attract and retain customers who meet our preferred risk criteria. We continue to build a strong reputation for delivering quality Affinity propositions to our partners and their retail customers. In Personal Broker we are focused on the mid-net worth market and have strengthened our product and service proposition.

We continue to target an expense ratio of around 14% by the end of 2012, which we believe is an appropriate level for our mix of business. As part of this, in February 2009, we announced a cost savings programme of £70m to be delivered by mid 2010.

PROGRESS AGAINST KEY STRATEGIES

We have delivered a good result despite challenging economic conditions. We have taken a conscious decision to focus on those target segments where we can achieve profitable growth and hold the overall top line flat.

Net written premiums were stable at £2.6bn as we continued to take the right action on rate and overall retention remains strong at around 80%. The underwriting result of £75m (2008: £99m) and COR of 98% demonstrate our ability to continue to deliver sustainable profitable performance.

COMMERCIAL

Net written premiums for Commercial lines were down by 5% to £1.5bn, as exposures declined with the impact of the economic downturn. Commercial Motor in particular was hit by a fall in new business sales. Mitigating this decline we have delivered strong growth in Specialty lines such as European Risk Solutions, up by 47% and Marine up by 21%.

To support growth in Specialty lines, and following the opening of a new office in Madrid in February 2009, we now have a presence in six European countries. We have invested in capability, recruiting a number of experienced underwriters and country managers and supported the business with a dedicated marketing campaign.

We introduced Broker Promise giving selected brokers direct access to decision makers. This facilitates rapid decision making and enables brokers to better understand our risk selection criteria. Although this is in its early stages, the results are promising, with a 35% increase in new business from the targeted brokers.

Across all lines, we have continued to take the right action on rate and achieved renewal rate increases of 8% in Liability, 3% in Property and 6% in Motor. This action is reflected in the COR for Commercial of 98.5%.

PERSONAL

In Personal, premiums were in line with 2008 at £1.1bn. Household premiums were adversely impacted by the reduction in mortgage origination yet, despite the reduction in new car sales, Motor grew by 5% driven by strong growth in Broker Panels and new Affinity deals.

THE UK HAS AGAIN DELIVERED A GOOD PERFORMANCE IN CHALLENGING ECONOMIC CONDITIONS. LOOKING AHEAD, WITH THE ACTIONS WE HAVE TAKEN TO REFOCUS AND REORGANISE THE BUSINESS, WE ARE WELL PLACED AND WE EXPECT THE TOP LINE TO MOVE TO POSITIVE TERRITORY'

Adrian Brown
Chief Executive, UK

MORE TH>N® net written premiums were £472m, 2% down on 2008. However, Pet again grew strongly, with premiums up by 17%. We continue to build MORE TH>N® through our 'We Do More' advertising campaign and new propositions such as 'Premier' for mid-net worth customers and an iPhone application to assist car claims.

In Affinity, we signed two new deals with HomeServe and the West Bromwich Building Society and retained four existing partnerships.

We continue to push rate where required and have achieved renewal rate increases of 7% in Motor and 3% in Household. We also continue to push rate hard on Motor new business and have achieved double digit rate increases. The Personal COR was strong at 97.4%.

ACTION ON EXPENSES

We are on track to deliver the £70m of savings announced in February 2009 ahead of schedule and expect to complete this programme in the first quarter of 2010. We have already achieved the target headcount reduction of 1,200 and generated £64m of annualised savings. We remain confident of achieving our target expense ratio (excluding commissions) of around 14% by the end of 2012.

TECHNICAL CAPABILITIES

Building on our reputation for technical excellence, we aim to differentiate ourselves from our competitors and continue to develop the sophistication of our claims handling, with enhanced fraud detection capabilities.

In 2009, we won the Training Award at the British Insurance Awards in recognition of our Underwriting Excellence course.

£m	2009	2008	2007	2006	2005
Net written premiums	2,632	2,711	2,688	2,618	2,632
Underwriting result	75	99	65	160	154
Combined operating ratio	98.0%	97.6%	97.6%	92.3%	93.1%

MARKET CONDITIONS

Within Commercial, the mid-market sector remains competitive as customers look to control costs. In Personal, competition remains strong due to aggregators and the number of players in the market and we expect this to continue.

The UK experienced severe snow and flooding in 2009, however, the impact on our result was limited by our prudent underwriting and conservative reinsurance policy. Improved large losses and benign subsidence conditions were also positive factors.

Our strong balance sheet and reputation for technical excellence have proved crucial to us, as clients and brokers continue to put great importance on the security and quality of companies where they place business.

OUTLOOK

Our disciplined approach in the UK, targeting profitable growth, taking the right action on rate and selectively withdrawing capacity will continue in 2010.

We see targeted growth opportunities in Commercial in Specialty lines such as Risk Solutions and Marine and in Personal lines, we will continue to grow Affinity and strengthen our high and mid-net worth offerings.

We've made a good start to 2010, with growth in Specialty lines in January and new business wins in Personal. Looking ahead, with the actions we have taken to refocus and reorganise the business we are well placed and whilst maintaining our underwriting discipline we expect the top line to move to positive territory.

UK

HE MAKES THE PRODUCTION
LINE RUN LIKE CLOCKWORK.
WITHOUT OUR HELP IT
WOULD HAVE STOPPED
FOR GOOD.

Potato crisps need to be light and golden, not black and burnt.

That's what our Risk Assessor, Kumu Kumar, was thinking during a routine visit to one of our clients who is a major manufacturer of snack foods. While he was examining the different processes he noticed that one area was particularly susceptible to fire.

Kumu knew that sprinklers were a bad idea as the water would react and actually 'fuel' a fire. Instead, he suggested a much more effective solution, water mist technology.

Luckily our client quickly implemented our recommendation.

Weeks after the new system was fitted, the deep fat fryer caught fire. The blaze was gaining momentum, threatening to burn the whole factory to the ground.

But just then, the Production Line Manager manually activated the new system and the fire was put out in seconds. Hardly any damage was caused, but more importantly, no lives were put at risk. The fat fryer was cleaned and back running again within a matter of hours.

All this shows that while the initial visit may have been routine, the attitude of Kumu, our Risk Assessor, was anything but

Did you know?

Sun Insurance company started in Causey's coffee house, which was in St Paul's Churchyard, London.

Did you know?

We provided Charles Darwin's home and contents cover for his house in Kent.

BUSINESS REVIEW

EMERGING MARKETS

Emerging Markets covers 21 countries across Latin America, Asia and the Middle East and Central and Eastern Europe

KEY STRATEGIES

Emerging Markets remains focused on delivering profitable growth through expanding distribution, disciplined underwriting and improving operational performance. We continue to focus on markets where we can establish a meaningful presence, either in overall market share or in segments where we have a competitive advantage. We are committed to strong governance and control, as well as close co-operation across the businesses to develop customer solutions which can be replicated cost effectively.

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

We continue to focus on the four key segments of Large and Complex Risks, Motor, Small and Medium Enterprises (SME) and Affinity, developing and improving single solutions which can be rolled out across all our regions, increasing our speed to market and reducing investment requirements.

For Large and Complex risks, we are further developing our hub and spokes model, through which regional centres of excellence support operations in meeting customer needs that they could not service in isolation. This has significant cost advantage over employing technical experts in all locations.

At 44%, Motor is a significant proportion of our portfolio. We are continuing to leverage the Group's overall technical capability to improve our pricing and claims offering.

For SMEs, we are streamlining sales processes and developing simplified standard products, enabling this segment to be served more cost effectively and providing greater choice to SMEs themselves.

Affinity continues to represent a significant growth opportunity, where we leverage our partners' distribution to efficiently access large scale customer bases. We work with utilities retailers and banks to offer simple, low cost products such as Personal Accident to customers who often have not previously been able to purchase appropriate insurance cover.

PROGRESS AGAINST KEY STRATEGIES

Our results are strong, demonstrating the success of our strategy despite the impact of

the economic downturn in a number of our markets. Emerging Markets premiums are up by 13% to £833m (2% at constant exchange). Including associates, premiums are £954m. The underwriting result is strong, up by 26% to £29m (2008: £23m), due to early action taken on rate and expenses. The COR is 95.1%, an improvement of 1.3 points on the prior year.

Latin America increased premiums by 8% (2% at constant exchange), driven by good growth in Brazil, Colombia and Uruguay. To support our SME strategy, we have recruited around one thousand Small and Medium brokers across the region.

Asia and the Middle East increased premiums by 47% (24% at constant exchange), driven by several large contract wins by our Construction and Engineering hub in the region. We also saw good growth in Singapore and Oman, where we have recently announced the acquisition of Al Ahlia, making us the largest insurer in the market by net written premiums. Our IPO in the Kingdom of Saudi Arabia is progressing successfully, with the offering being seven times over-subscribed.

In India, our associate continues to perform strongly, with premiums up 18% to £86m.

'OUR EMERGING MARKETS HAVE HUGE POTENTIAL AND WE REMAIN ON TRACK TO ACHIEVE OUR £1BN PREMIUM TARGET BY THE END OF 2010. OVER TIME, WE EXPECT TO RETURN TO DOUBLE DIGIT GROWTH'

Paul Whittaker

Chief Executive, Emerging Markets

(10% at constant exchange), with Personal Motor growing at 14% on the back of buoyant new car sales

In Central and Eastern Europe, premiums are down by 6% (16% at constant exchange). As expected, the Baltics were particularly impacted by the economic downturn, with Latvia and Lithuania worst affected, however, we have maintained our market leading position

One of the opportunities created by the credit crunch was the acquisition of the remaining 50% of Intouch across Poland, the Czech Republic and Russia, earlier than anticipated and at a good price. These are exciting markets and our focus on direct Motor through call centres and the Web is proving successful as Intouch continues to grow. These operations have benefitted from strong support from MORE TH>N® to upgrade Motor pricing capability. We have also appointed a new Technical Director in Poland from our Canadian business to drive further operational improvements in Motor underwriting and claims.

We continued to build our Affinity capability and reputation across Emerging Markets and signed 33 new deals in the year. 13 of these deals were in Latin America including Citibank in Colombia, Claro in Argentina and Santander in Mexico with a further 17 deals across the Baltics.

MARKET CONDITIONS

Short term conditions remain challenging, especially in the Baltics and, in response to the economic downturn, we have taken a number of actions to protect profitability including

- Reducing headcount by around 600 across Asia and the Middle East and Central and Eastern Europe
- Taking strong action on rating, and
- Selectively withdrawing capacity where we cannot achieve target returns

£m	2009	2008	2007	2006	2005
Net written premiums	833	738	615	531	440
Underwriting result	29	23	18	11	6
Combined operating ratio	95.1%	96.4%	95.3%	97.3%	96.4%

OUTLOOK

In Latin America the economies in our markets are picking up with an immediate impact on insurance and in Asia and the Middle East we are seeing a move from private to government-funded infrastructure projects.

In Central and Eastern Europe, the Baltics has been particularly impacted by the economic downturn, however, we continue to maintain our market leading position.

On 27 February 2010, an earthquake measuring 8.8 on the Richter scale hit Chile, causing large scale damage. All our employees are safe and the majority of our network was up and running within hours, supporting our customers, despite a lack of power in some branch offices. I would like to thank all our staff for their dedication in such trying circumstances.

In targeting profitable growth, we will maintain our focus on underwriting discipline and continue to take action on rate and expenses. We remain on track to achieve our £1bn premium target by the end of 2010.

Emerging Markets have huge potential, as insurance penetration remains lower and, over the longer term, GDP growth will be higher than in more mature markets. Although short term conditions remain challenging, over time, Emerging Markets will return to double digit growth and we will continue to invest in the region.

EMERGING MARKETS

HE HAS 96 HOURS TO
TRANSPORT LIFE-SAVING
PHARMACEUTICALS
ACROSS CONTINENTS.
WE ENSURE THERE ARE
NO EMERGENCIES EN ROUTE.

This driver is in a race against time

The temperature-sensitive pharmaceuticals he carries are allowed a maximum of 96 hours for transit. He drives this cargo thousands of miles across some of the world's most difficult terrain, sometimes even through war zones.

If he is delayed, or the storage temperature deviates, even just a few degrees, the entire consignment could be scrapped at a significant cost.

More importantly, patients would be deprived of life-saving treatments.

Transporting this kind of cargo requires expertise and precision, so when a major pharmaceuticals manufacturer asked us to help, our Risk Managers set to work.

They know that in this business timing is crucial.

The team immediately carried out a forensic examination looking at all aspects of the process, from production through to delivery. We advised on everything, from route planning and packaging to transportation methods and third-party contracts.

As a global company with local knowledge, we were also able to help with security and contingency measures on the ground.

Our efforts have paid off. There are now considerably fewer disruptions to the supply chain and we're working hard to reduce the number even further.

Did you know?

RSA was instrumental in the foundation of Shanghai's first fire service which was crewed by volunteers.

Did you know?

We had a presence in India from 1852 until nationalisation, re-opening for business in 2000.

FINANCIAL REVIEW

ANOTHER STRONG YEAR

FINANCIAL HIGHLIGHTS (MANAGEMENT BASIS)

£m	2009	2008	2007	2006	2005
Net written premiums	6,737	6,462	5,837	5,484	5,300
Underwriting result	386	384	278	310	263
Investment result	523	594	629	556	580
Insurance result	909	978	907	866	843
Other activities	(132)	(111)	(93)	(86)	(100)
Operating result	777	867	814	780	743
Interest and amortisation	(141)	(126)	(122)	(130)	(155)
Reorganisation costs	(75)	–	–	–	–
Other	–	–	–	–	180*
(Loss)/profit on disposals	(7)	18	(22)	(1)	126
Profit before tax	554	759	670	649	894
Tax	(135)	(173)	(29)	(170)	(259)
Profit after tax from continuing operations	419	586	641	479	635
Loss after tax from discontinued operations	–	–	(13)	(499)	(30)
Profit after tax	419	586	628	(20)	605

*2005 included a one-off benefit for profit on changes in pension scheme design

£m	2009	2008	2007	2006	2005
Combined operating ratio	94.6%	94.5%	94.9%	93.3%	94.1%
Shareholders' funds (ex IAS19)	3,753	3,476	2,961	2,537	2,925
Shareholders' funds (incl IAS 19)	3,491	3,839	3,077	2,561	2,686
Underlying return on opening equity	12.7%	18.5%	21.3%	20.7%	21.6%
Underlying return on average equity	13.4%	16.4%	19.3%	19.7%	19.5%

RESULTS OVERVIEW

2009 was a good year for the Group in challenging conditions and we have again delivered a strong result with management actions on targeted growth, rate and expenses offsetting the impact of the economic downturn

Our balance sheet and capital position remain strong and our commitment to tight operational and financial management underpins this result

NET WRITTEN PREMIUMS

Net written premiums are up by 4% to £6.7bn (down 1% at constant exchange). This reflects the impact of the downturn offset by our actions on rate, targeted growth and the benefit of acquisitions and foreign exchange

OPERATING RESULT

The operating result is £777m (2008 £867), with the marginal increase in the underwriting result offset by the expected reduction in investment income

UNDERWRITING RESULT

The underwriting result is up by 1% to £386m (2008 £384m) and represents a strong performance in challenging conditions, with a current year underwriting profit of £100m (2008 £93m) and a prior year profit of £286m (2008 £291m). The current year result reflects the benefits of rate increases, other management actions and improved large losses (£34m better than 2008), offset by adverse weather (£55m worse than 2008)

The prior year result comes from all regions with particular strength from Scandinavia and Canada and the expected lower, but still strong, contribution from the UK

The Group continues to maintain its prudent reserving policy. Reserves remain very significantly to the right side of best estimate,

**'2009 WAS A GOOD YEAR FOR THE GROUP
IN CHALLENGING CONDITIONS WE ARE
CONFIDENT IN OUR ABILITY TO CONTINUE
TO DELIVER EXCELLENT RESULTS'**

George Culmer
Chief Financial Officer

and we would expect positive prior year development to continue to be a significant feature of the underwriting result

INVESTMENT RESULT

The investment result is £523m, with investment income of £595m, in line with guidance, total gains of £28m and the discount unwind up to £100m primarily due to foreign exchange

On investment income, the average underlying yield is 3.9%, with a 1.1% return on cash assets and 4.2% on the remainder of the portfolio

Total gains of £28m include £69m of realised gains, a loss on our equity hedge of £28m and impairments of £24m. Total gains also includes £7m of mark to market gains on commercial property, ahead of expectations due to a strong performance in the final quarter

In terms of 2010, as it stands today, we would expect full year investment income to be around £540m and we currently expect total gains to be around 2009 levels

OTHER ACTIVITIES

Other Activities are £132m and comprise central expenses, which are in line with the prior year, investment expenses and the ongoing investments in our associate in India and direct operations in Central and Eastern Europe

As reported at the half year, we will continue to charge the investment in these direct operations to Other Activities. In 2009, this investment was £29m, compared with £16m in the prior year, primarily reflecting the move from associate to wholly owned subsidiary. In 2010, we expect this investment to be around similar levels

INVESTMENT RESULT

	12 months 2009 £m	12 months 2008 £m	Movement %
Investment income	595	654	(9)
Realised gains	69	150	(54)
Unrealised gains/(losses), Impairments and foreign exchange	(41)	(118)	65
Total gains	28	32	(13)
Unwind of discount including ADC	(100)	(92)	(9)
Investment result	523	594	(12)

OTHER MOVEMENTS

Other movements comprises interest and other costs of £141m, up from £126m primarily due to the issue of the Sterling bond in May. Reorganisation costs relate to the cost reduction programme in the UK, announced in February 2009. To date we have achieved £64m of run rate savings at a cost of £75m, against the expected cost of £80m for the full programme. We anticipate completing the full programme of £70m of cost savings in the first quarter of 2010, ahead of schedule.

The £7m loss on disposal relates to the sale of the British Engine legacy business, announced on 30 September 2009, which will remove over £100m of net insurance liabilities from the Group's balance sheet.

TAXATION

The tax charge is £135m and represents an effective rate of 24%. In 2009, there has been no allocation to the Swedish Security Fund. The effective rate has, however, benefitted by 1% following the domestication of our Irish branch into a subsidiary.

The setting up of our Irish reinsurance company remains on track and we are currently awaiting regulatory approval.

PROFIT AFTER TAX

Profit after tax is £419m and the underlying return on opening equity is 12.7%, with the movement on 2008 due to expected lower investment income and the impact of foreign exchange on opening assets. The underlying return on average equity is 13.4% compared to 16.4% in 2008.

FINANCIAL REVIEW CONTINUED

2009 DIVIDEND

The directors will recommend at the Annual General Meeting to be held on 17 May 2010, that a final ordinary dividend of 5.33p (2008 4.98p) per share be paid. This together with the interim dividend of 2.92p (2008 2.73p) paid on 27 November 2009, will make the total distribution for the year 8.25p (2008 7.71p).

CASHFLOW

Operating cashflows are £490m and, as we reported at the half year, have been adversely impacted by Direct Indemnification and performance in Italy and the reorganisation costs in the UK. As mentioned last year, 2008 also benefitted from the sale of group occupied properties, primarily Codanhus in Denmark. The increase in tax paid to £180m follows the lower allocation to the Swedish Security Fund in 2008. Interest paid is down by £11m to

£96m, as the new Sterling notes only pay interest once a year, starting in May 2010.

Net financing relates to the subordinated debt issue in the first half of the year, offset by the Euro bond call in October. Corporate activity of £101m comprises our acquisitions in Central and Eastern Europe, Canada and Ireland.

LIQUIDITY AND DEBT REFINANCING

Our financing and liquidity position remains strong. The next call on any external financing is on the £450m subordinated guaranteed perpetual bonds in December 2014 and our committed £455m senior facility remains undrawn. New subordinated guaranteed Sterling dated notes were issued on 20 May 2009. The nominal £500m of notes have a redemption date of 20 May 2039 and bear interest at a fixed rate of 9.375% until

20 May 2019, after which the Group has the option to repay the notes on specific dates.

INVESTMENT PORTFOLIO

The total value of the investment portfolio is £14.3bn, down marginally from the start of the year, with the negative impact of foreign exchange and other movements offset by mark to market gains. The overall portfolio remains high quality, with 87% of the portfolio invested in fixed income and cash. The fixed interest portfolio remains concentrated on high quality short dated assets, with 99% of the bond portfolio investment grade and 80% rated AA or above. The average duration of the portfolio is 3.0 years.

The government bond portfolio is high quality, with the vast majority rated AAA. Our exposure to Greece, Ireland, Italy, Portugal and Spain is £268m, less than 2% of the total portfolio. Of this exposure, around £180m is held to back the liabilities of our operations in Ireland and Italy.

We continue to take action to offset the fall in yields, including the selective purchase of high quality non government bonds as well as a measured increase in equity and property holdings. At the year end, non government bonds comprised 54% of the portfolio, compared with 48% at the start of the year, while equities and property were 7% and 3% respectively. We've also taken action to reduce cash balances across the Group and these are down by around £600m in the year.

CAPITAL POSITION

The Group has again maintained a strong capital position. Shareholders' funds were £3.5bn, with the movement on prior year due to after tax profits, offset by foreign exchange, the decrease in the pension surplus and the payment of dividends. Excluding the pension fund, shareholders' funds are up by 5%.

On capital, our regulatory surplus remains at £1.7bn, with coverage a very strong 2.4 times the requirement. The Group also continues to hold a significant economic capital surplus of around £1.8bn.

CASH FLOW

	12 months 2009 £m	12 months 2008 £m	Movement £m
Italy	(57)	34	(91)
UK reorganisation costs	(55)	—	(55)
Property sales	—	109	(109)
Underlying	602	637	(35)
Operating cashflow	490	780	(290)
Tax paid	(180)	(101)	(79)
Interest paid	(96)	(107)	11
Group dividends	(195)	(181)	(14)
Dividend to minorities	(3)	(8)	5
Net cashflow	16	383	(367)
Issue of share capital	11	19	(8)
Pension asset reallocation funding	(40)	(37)	(3)
Net movement of debt	21	(2)	23
Corporate activity	(101)	(101)	—
Cash movement	(93)	262	(355)

RATING AGENCIES

S&P, Moody's Investor Service and AM Best provide insurance financial strength ratings for the Group and its principal subsidiaries. The Group is currently rated A stable outlook by S&P, A2 stable outlook by Moody's and A (Excellent) by AM Best.

PENSION FUND

The pension scheme moved from a surplus of £363m at the start of the year to a deficit of £262m at 31 December 2009. This movement reflects the action taken to de-risk the UK schemes in July and changes in assumptions.

The de-risking provides protection against longevity, interest rate and inflation on around one third of the UK defined benefit schemes' liabilities and significantly reduces the sensitivity of the schemes.

On assumptions, in line with decreasing corporate bond yields, the discount rate has been reduced from 6.2% to 5.8% and we have also increased our inflation assumption and moved to the long cohort on mortality.

We continue to take action to de-risk our pension schemes and in 2009, we were the first company in Ireland to move from a final salary to a career average earnings scheme.

In February 2010, we made further significant changes to our UK defined benefit schemes.

These included:

- Reducing the future rate of pension accrual from 60ths to a choice of 80ths or 100ths
- Increasing the level of existing employee contributions
- Reducing the cap on pensionable earnings to £75,000 and
- Raising the schemes' retirement age from 62 to 65

These changes will reduce the growth of the future liabilities and cut the annual cost of the schemes.

SOLVENCY II

Solvency II is a fundamental overhaul of the capital adequacy regime for European insurers and reinsurers, which we expect to become law on 31 October 2012.

We welcome the increased focus on good risk management and the more risk based approach to solvency calculations, although, along with the rest of Europe, we are concerned about the level of prudence within the proposed calibrations for the standard formula calculations. We are lobbying hard and engaging directly with industry groups and regulators.

We are also at the forefront of implementation. We start with a very strong capital management and modelling capability and we are one of only four companies working with the FSA on the pilot approval process for internal models.

We have established a cross-functional team covering capital and risk management, modelling, actuarial, regulatory and IT to lead the implementation of Solvency II across the Group. The team report to a Steering Committee which provides oversight and governance on behalf of the Executive Management to the Board and Board Risk Committee. As Group CFO, I am the Board member responsible for Solvency II. There is still a long way to go but we believe that the eventual outcome will be a sensible one.

SUMMARY

2009 was a good year for the Group in challenging conditions. We will continue to drive top and bottom line growth and are confident of continuing to deliver excellent results.

George Culmer
Chief Financial Officer

RISK MANAGEMENT

2009 UPDATE

ORGANISATION

We strengthened the independence of the Board Risk Committee by appointing two Non Executive Directors, Noel Harwerth (Chair) and Malcolm Le May. We also made a number of appointments across the business to strengthen the Financial, Emerging Markets and International Risk teams.

PROCESSES

We undertook an extensive exercise to review and document the Group's Governance Structure and Control Framework, which confirmed the existing strong level of governance and control.

We undertook a comprehensive stress and scenario testing exercise (covering reverse stress tests) to better understand our risk profile and improve our control environment.

In addition to our strong focus on technical and file reviews, we strengthened our focus on underwriting referrals to ensure that we write the right risks at the appropriate price.

REPORTING

The Board updated the Group risk appetite to cover key strategic relationships, and extend liquidity, cashflow and debtor management.

Our clearly defined and focused underwriting risk appetite remains unchanged.

POLICIES

We updated our liquidity management policy and supporting procedures.

We also reviewed our delegated authority framework policy and strengthened our financial authorisation processes.

OVERALL RISK FRAMEWORK

The Group operates under a risk management framework that is designed to identify, assess, measure and manage exposure to risk. This process is subject to continuous review and development.

RISK MANAGEMENT

The Board is responsible for the Group's systems of risk management. Executive management is responsible for establishing and implementing appropriate systems and controls. The Group Risk Management Framework provides the mechanism through which risk management and control is embedded throughout the Group. Each Group business is required to follow a consistent process to identify, assess, manage and monitor their key risks.

GROUP RISK APPETITE

The Group risk appetite is set and monitored at both a Group and regional level and is annually reviewed 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 and other measures. There is a formal escalation process for potential or emerging risks that are outside the risk appetite.

RISK FRAMEWORK

The Group has a '3 lines of defence' model for the oversight and management of risk.

1st Management responsible for setting strategy, performance measurement and the establishment and maintenance of internal control and risk management systems.

2nd Risk assessment. we operate a formal risk management framework within which the Group policies and minimum standards are set. Oversight and challenge are provided by the Board Risk Committee, supported by the Group risk functions and a Group wide network of regional risk committees.

3rd Independent assurance the Group Audit Committee, supported by Group Internal Audit and regional audit committees, provides independent and objective assurance of the effectiveness of the Group's systems of internal control.

GROUP RISK POLICY STATEMENTS

Group risk policy statements set out the minimum standards to be maintained by the Group's operations to manage risks in a way that is consistent with the risk appetite. Business managers are responsible for complying with Group and local risk policies and for managing risk by taking mitigating actions where appropriate. The Board Risk Committee's role includes consideration of risk mitigation.

Compliance with policy statements is mandatory. Policies are subject to regular review to reflect changes in circumstances and the Group risk appetite.

RISK CATEGORIES

Risk elements are viewed under headings 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 85. Some of the key current practices and tools for each risk category are set out below.

INSURANCE RISK

The Group's insurance activities are primarily concerned with the pricing, acceptance and management of risks arising from our contracts with customers. The management of underwriting and claims risks uses a number of key tools, including the review of the performance and management of individual insurance portfolios throughout the Group using the portfolio classification process and the investigation of potential emerging insurance risks.

Claims development and reserving levels are closely monitored. Each region's Reserving Committee determines a recommended level of outstanding claims reserves in accordance with the Group reserving policy. The Group Reserving Committee assesses the appropriateness of these recommendations and determines the level of aggregate outstanding claims reserves to be carried by the Group.

REINSURANCE RISK

The Group's reinsurance strategy and appetite are recommended to the Board by the Board Risk Committee and published and disseminated via the Group reinsurance policy statement. The reinsurance team monitors and controls the Group's reinsurance activity and has responsibility for the purchase of the worldwide programme of treaties. All major treaty purchases are analysed using various sophisticated modelling tools to ensure that the level of cover purchased is capital efficient and aligned with the Group risk appetite and strategy.

OPERATIONAL RISK

Major sources of operational risk include, but are not limited to, process reliability, information security, fraud and human error. The Group uses a suite of risk tools to help manage operational risk including risk and control self assessments, key risk indicators, scenario analyses, incident management and loss reporting.

A series of key risk indicators are used to assess and manage operational risk, whilst data

collected on actual operational risk incidents and 'near misses' captures past experiences. The use of scenario analyses enables assessment of whether operational events that have occurred elsewhere could manifest themselves within the Group.

CREDIT, MARKET AND LIQUIDITY RISKS

The primary sources of credit risk are investment and treasury activities and reinsurance counterparty risk. A range of bank counterparty concentration and credit quality limits, together with other controls, are in place to ensure that exposure is managed within the Group risk appetite. New reinsurance cover is placed with reinsurers that are authorised as approved reinsurance counterparties recommended by the Group Reinsurance Credit Committee under criteria approved by the Board Risk Committee.

Market risk arises from the Group's investment portfolios. The Group Asset Management Committee oversees the Group's investment strategy under the oversight of the Investment

Committee and operating within risk limits set by the Board Risk Committee.

Group liquidity is managed by Group Treasury and each operation is required to maintain a minimum level of cash or highly liquid assets. Contingency funding plans are prepared and monitored to ensure that these minimum levels are met even in stress conditions.

REGULATORY RISK

The Group operates in a number of geographical locations with diverse regulatory requirements. Internationally, the regulatory environment has become more complex and demanding. The Group continues to respond to these developments through its arrangements for regulatory compliance and by ensuring that it maintains open and cooperative relationships with its regulators.

RISK MANAGEMENT CONTINUED

PRINCIPAL RISKS AND UNCERTAINTIES

TYPE OF RISK	POTENTIAL IMPACT	SENSITIVITY AND MITIGATION
PROLONGED ECONOMIC DOWNTURN	• Exposure reduction impacts premium levels, and • Increased claims frequency	• Diverse portfolio provides exposure to markets at different stages of development and at different points in the insurance cycle • Group has limited exposure to economically triggered contracts • KPI dashboard developed, enabling early corrective action, e.g. change in terms and conditions, rate and capacity withdrawal • Maintain focus on underwriting discipline and targeted profitable growth, and • Continue to take action on rate and expenses
ADVERSE FINANCIAL MARKET	• Impact on investment portfolio and investment income due to lower interest rates and investment market volatility	• The Group maintains a high quality, low risk investment strategy, and • Action taken to mitigate falling yields, including increased holding in non-government bonds, equities and property and extended duration
RATING ENVIRONMENT	• Inability to charge adequate rates places downward pressure on operating results	• Diverse portfolio, provides exposure to markets at different stages of development and at different points in the insurance cycle • Continue to invest in technical skills, sales and marketing capabilities and target profitable growth • Each underwriting portfolio has a rate plan, reviewed regularly to ensure achieved or corrective action taken • Reviews of business won and lost to ensure underwriting discipline is maintained and risks accepted are priced to achieve target returns, and • Actively shift capacity to where we see the best returns
INSURANCE RISKS OUTSIDE GROUP'S RISK APPETITE	• Adverse impact on operating results due to increased volatility	• The Group operates under a clear risk appetite set by the Board which is monitored at Group and regional level • Underwriters are licensed only to write risks within specified limits based on their own experience, and • Reviews assess each portfolio against key performance and risk indicators. Portfolios that trigger key risk indicators are investigated. Corrective measures are implemented where required
ADVERSE LOSS EXPERIENCE	• Catastrophic losses arising from insurance event(s) • Increasing frequency and severity of large losses, and • Deterioration in long tail reserves	• Underwriting strategy set centrally using risk aggregation models to ensure risks written are well diversified and within risk appetite • Portfolio reviews monitor underwriting performance • Emerging trends in large losses, frequency and severity are investigated and corrective action taken • Conservative reinsurance programmes limit net losses, and • Conservative reserving policy ensures claims reserves are set with the aim that, over the longer term, they will be more likely than not to result in positive prior year development.

CORPORATE RESPONSIBILITY

CORPORATE RESPONSIBILITY REMAINS FUNDAMENTAL TO THE WAY RSA CONDUCTS ITS BUSINESS DURING 2009 WE LAUNCHED A NEW PARTNERSHIP WITH WWF FOCUSING ON THE RISKS OF ENVIRONMENTAL CHANGE

PROGRESS IN 2009

Our progress in 2009 was recognised by Goldman Sachs, who named RSA as one of the top five global insurers in their G5 Sustain report, an upgrade from Bronze to Silver in the Dow Jones Sustainability Index, moving from 'Gold' to 'Platinum' in the Times Top 100 Companies and winning the CorpComms Best Corporate Responsibility Strategy award

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 and all employees are assessed against our brand beliefs to ensure that this forms part of the performance and remuneration structure at RSA.

Our approach 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, agree that we are focusing on the right issues.

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 comply with our CR, environment, charity and human rights policies on a quarterly basis. Compliance with the policy framework is reviewed by the Group Executive Committee and Group Board in regular CR updates.

Responsibility for CR lies with the Group CEO, who chairs the bi-annual 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 Group CEO's goals, which are also cascaded to direct reports and relevant business functions.

Our CR data, processes and external reporting are verified by the Corporate Citizenship Company (AA1000, GRI, ISAE3000) with an extra audit of the Group's carbon footprint forming part of our offsetting due diligence (GHG Protocol). 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 2009, the main risks identified included the forthcoming 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 achieved 74% of 2009 targets. We recently set a challenging target to achieve a reduction in CO₂ of 40% by 2020 against our 2006 levels.

Further information on our approach, governance and policies can be found at www.rsagroup.com/rsa/pages/responsibility

CR SUPPORTS OUR STRATEGY

Our commitment to 'Doing the Right Thing' is not isolated from but underpins our business strategy. We incorporate the activities discussed below into our strategic priorities. For example, our work on flood mapping helps us identify the appropriate price for the risk accepted, driving sustainable earnings, whilst also allowing us to prioritise our claims approach. The development of our renewable energy products has been a key factor in delivering targeted profitable growth and establishing RSA as a leading renewables insurer globally and the work we do on environmental management to reduce travel, paper consumption and energy and water.

For more details see www.wwfrsapartners.com

WWF PARTNERSHIP

In 2009, we officially launched our partnership with WWF across the UK, Canada, Sweden, Denmark and China focusing on the insurance risks of environmental change. Over the next three years, RSA will be supporting conservation projects relevant to our business, developing new products and engaging our employees and external stakeholders on the environment.

Flooding remains a key issue for RSA. The impact of 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. Together with WWF we are restoring an urban river in London. Slowing down the river, re-creating the natural meander and creating a floodplain demonstrates a cost-effective, natural solution.

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 sustainability. In Canada, we are establishing marine protection areas to help safeguard the long-term future of our fishing industry and in Scandinavia, we are collaborating with governments to better manage commercial use of the Baltic Sea.

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 will be working with WWF and a range of stakeholders to develop renewable energy usage and energy efficiency.

CORPORATE RESPONSIBILITY CONTINUED

usage, not only helps us meet environmental targets but reduces overall cost in our continued focus on operational excellence

CUSTOMERS

As an insurer, we play a vital role in helping people and businesses recover when the worst happens. Helping get their lives back on track is our first priority. During the 2009 earthquake in Italy and flooding in the UK and Mexico, we helped our customers through our rapid claims response.

Customer service is of critical importance to us and we introduced our Customer Satisfaction Monitoring system in the UK to help us better understand customer attitudes and feelings. We received over 18,000 responses for our MORE TH>N® business and as a result we will be focusing on making the improvements prioritised by our customers.

We remain committed to clear and open communication with our customers and to resolving any complaints promptly. Independent analysis shows our success in improving our performance, with the 2009 survey by the Association of British Insurers which awarded RSA 97 out of 109, the highest score of all general insurers.

Product innovation is also key to our success and across the business we have created tailored and relevant products for specific customer groups. Social and environmental changes create demands for innovative insurance solutions. For example:

- In Chile, the city of Santiago introduced vehicle restrictions in a bid to tackle air pollution. We developed an SMS alert service to notify customers when they can't drive their cars. The service attracted over 16,000 users and has been endorsed by the City Council and Chilean Environment Ministry, and
- Working with the reinsurer Munich Re we launched insurance4renewables, a global service that offers standard and customised insurance products and services for renewable energy projects in developing countries. The service was developed in partnership with the United Nations Environment Programme to tackle the barriers many developing country projects face in securing investment.

BUSINESS PARTNERS

We work closely with our business partners and intermediaries to grow a successful business while reducing our collective environmental and social impact. During 2009, in the UK we asked 90% of our suppliers about their management of CR issues and engaged in active dialogue to improve standards.

In 2010, we will rollout this approach in Canada and Scandinavia, building on our responsible procurement agenda and sector wide

collaboration through the Financial Services Procurement Forum.

Broker satisfaction is also important and, in Trygg-Hansa in Sweden, we received top ratings in an independent survey of brokers' perceptions of insurance companies and their products. We scored highly for service and personal contact and 73% of Trygg-Hansa's brokers said they are satisfied, securing the company as one of the leading general insurers.

GREENHOUSE GAS EMISSIONS FOR RSA INSURANCE GROUP (TONNES OF CO₂e*)

	2009 ⁵	2008	2006 (baseline)
Scope 1 ¹	15,153	18,921	–
Scope 2 ²	33,616	28,380	–
Scope 3 ³	15,890	13,886	–
Total gross	64,659	64,782	77,247
Gross tonnes CO ₂ per £m NWP	9.6	10.0	14.1
Carbon offsets	32,887	34,381	–
Total net emissions	31,772	30,401	77,247
Net tonnes CO ₂ per £m NWP	4.7	4.7	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

4 CO₂ baselines 2006-08 restated in accordance with revised emission factors from DEFRA and GHG Protocol

5 2009 data includes Czech Republic, Poland and Russia for first time

GEOGRAPHIC BREAKDOWN OF CO₂e EMISSIONS FOR 2009 (TONNES CO₂)

	Scope 1	Scope 2	Scope 3
UK (including GCC)	6,823	18,731	5,930
International	4,433	7,139	5,749
Emerging Markets	3,897	7,746	4,211

On 25 June, we will be hosting 'RSA Day' as part of our 300 year birthday celebrations in support of our CR strategy to further encourage volunteering and fundraising around the Group

EMPLOYEES

A sustainable business needs to attract, develop and reward talented people, as well as making them accountable for their actions

We continue to focus on developing employees at all levels through our major initiatives

- Our Technical Academy now has over 10,000 members across the Group and provides immediate access to more than 300 online training solutions as well as planning tools and career maps
- Our Marketing Academy was the winner of the 'Insurance Times Training Programme of the Year 2009' and has, to date, rolled out its Foundation Programme to more than 150 RSA marketeers from over 12 countries
- The Executive Development Programme is entering its sixth year, bringing together leaders from across the Group to work collaboratively on critical strategic issues, and
- Our Graduate and FastTrack programmes provided structured support and career paths for 42 new starters and high potential individuals in 2009

We continued to focus on employee engagement leveraging the insights from our Employee Engagement Survey. The feedback obtained has been used to generate ideas and create action plans to make changes across our business. The overall engagement score was up 0.19 to 3.99 (maximum of 5.00), which is classed as a significant improvement.

Across RSA, staff at all levels participate in local volunteer weeks donating funds, volunteering and helping causes they care about. 10,123 employees volunteered during working hours up from 7,250 in 2008. In 2009, we donated over £2.7 million in charitable donations (2008 £2.2 million), with over 21,195 volunteer hours donated

CLIMATE CHANGE & THE ENVIRONMENT

As an insurer, any change in the intensity or frequency of extreme weather conditions is a significant issue. RSA, together with WWF, hosted an event at the COP15 talks in Copenhagen, focusing on risks to the Arctic region.

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 ABI ClimateWise initiative.

As an insurer, we are at the forefront of technology to help manage and minimise risk for our customers from extreme weather. Over the last year, we utilised our flood risk mapping tool to detect customers most likely to be affected during the Cuckmere and Keswick floods, ensuring our claims teams contacted them as a priority.

COMMUNITY

Helping local communities forms a strong part of being a responsible business. It benefits those around us, helps build our reputation and motivates our employees.

Road Safety

We continue to support programmes in Chile, Lithuania, UAE, Sweden, Denmark and the UK and in 2009, launched a road safety reflective clothing programme for over 2,000 children in Estonia. We also continue to develop our children's accident prevention foundations in Denmark and Sweden, which promote accident prevention measures and support families who have been affected by their child's accident.

Environment

During 2009, we supported a number of environmental 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.

Our operations in the UK, Ireland and Group Corporate Centre remain carbon neutral. All offsetting of equivalent emissions is made in renewable energy projects certified to the Voluntary Carbon Standard.

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 94 companies on a wide range of issues from climate change to labour standards in our portfolios.

For further details of CR progress please see the full Corporate Responsibility Report, available in April on our website.

We focus on three areas that are important to our customers and where we feel we can achieve most through our skills and experience.

Social Inclusion

RSA employees from all over the Group get 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, employees help to mentor teenagers aspiring to a career in business and launched a new youth-focused crime prevention scheme.

CORPORATE RESPONSIBILITY

HER CITY IS CHOKED
BY TRAFFIC.
OUR SIMPLE SOLUTION
HELPED CLEAR THINGS UP.

Anna's daily commute into Santiago would take your breath away

Imagine living in a city where your health, like Anna's, is threatened by circumstances beyond your control

How would it feel to live your life behind a mask? To know that the air you breathe damages your health, and your children's health, because of the shocking pollution caused by traffic.

Everyone suffers

In 2008, the city government took steps to address the pollution problem. It now bans around 320,000 cars from the road during smog alerts. The problem for people like Anna is knowing whether her car is one of the banned ones on any given day. Simple tasks, like taking the children to school, become much more complicated. And she risks a heavy fine for ignoring the ban.

Whilst this wasn't a typical insurance problem it was clear to us that many of our clients' businesses, and their health, were being affected.

We brought together our smartest thinkers to come up with a proactive solution to alleviate the issue. The answer was simplicity itself. RSA recommended, created and now broadcasts a SMS service during smog alerts to warn drivers if their car is banned the following day.

It's a solution that reduces pollution, keeps the city and businesses moving by keeping cars off the roads and helps thousands avoid an expensive fine.

Helping people like Anna to breathe a little easier too.

Did you know?

We insured the first offshore windfarm in the world and to date have been involved in insuring around 80% of the world's offshore turbines.

EXECUTIVE TEAM

FROM LEFT TO RIGHT

1 ANDY HASTE

GROUP CHIEF EXECUTIVE

Andy joined the Board as Group Chief Executive in April 2003 and is on the Investment Committee and Board Risk Committee. Andy has been a member of the Board of the Association of British Insurers since 2003. Andy's previous roles include Chief Executive of AXA Sun Life plc, Director of AXA UK plc (life and pensions), President and Chief Executive Officer of Global Consumer Finance Europe at GE Capital UK, Western Europe and Eastern Europe (financial services) and President of National Westminster Bank's US Consumer Credit Business (retail banking). He was appointed a Non-Executive Director of ITV plc (media) in August 2008.

2 CLARE SHEIKH

GROUP STRATEGY, MARKETING AND CUSTOMER DIRECTOR

Clare joined as Group Strategy, Marketing and Customer Director in June 2007. Previously she was Director of Marketing and Commercial Strategy at ITV plc and a member of the Executive Management Board, Managing Director of AA Financial Services and has held senior commercial roles at Prudential and British Gas. She is a Non-Executive Director of Alliance Trust plc.

3 MARK CHAMBERS

GENERAL COUNSEL AND GROUP COMPANY SECRETARY

Mark Chambers joined as General Counsel and Group Company Secretary in October 2004. Previously, Mark led the legal team at American Express for Europe, Middle East and Africa. Prior to that he held senior positions in the consumer finance and insurance businesses at GE and worked for Slaughter and May, a leading international law firm. Mark is a trustee of WWF-UK and Chairman of their Audit Committee.

4 ADRIAN BROWN

CHIEF EXECUTIVE, UK

Adrian Brown was appointed Chief Executive of the UK in 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 was UK Director of Personal lines and led the launch of MORE THAN®.

5 DAVID WEYMOUTH

GROUP OPERATIONS AND RISK DIRECTOR

David joined as Group Operations and IT Director in June 2007. David spent 27 years with the Barclays Group, where senior roles included Chief Operating Officer for Corporate Banking and Group Chief Information Officer. He was also on the Group Executive Committee. He recently spent two years consulting to blue chip and government organisations and acting as an independent board member at the DTI and Chordiant Inc, the US Nasdaq quoted software business.

6 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. 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.

7 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. She was part of the Codan Group Executive Leadership Team and the International Central Leadership Team. Anne was previously CFO at Maersk Data for two years and spent 13 years with KPMG as a State Authorised Public Accountant, where she was involved in work with public listed companies and M&A and restructuring.

8 GEORGE CULMER **CHIEF FINANCIAL OFFICER**

George joined the Board as Chief Financial Officer in May 2004 and is a member of the Investment Committee and the Board Risk Committee, which he chaired until June 2009. He was previously Head of Capital Management at Zurich Financial Services (insurance) and Chief Financial Officer of its UK operation. Before that George spent ten years with Prudential.

9 TIMOTHY MITCHELL **GROUP UNDERWRITING** **AND CLAIMS DIRECTOR**

Tim was appointed Group Underwriting and Claims Director in November 2007 when he joined the Group. He has over 30 years' experience in the insurance industry. He joined RSA from Zurich Financial Services, where senior underwriting roles included Global Chief Underwriting Officer for General Insurance. Tim has also held senior management roles at AIG and Continental Insurance. Tim is on the Cheltenham Ladies College Council.

10 SIMON LEE **CHIEF EXECUTIVE, INTERNATIONAL**

Simon was appointed as an Executive Director in January 2007 having been Chief Executive of International since April 2003. He is Chairman of the Codan Group and Trygg-Hansa and is a Director of RSA Canada. He spent 17 years with the National Westminster Group as Chief Executive, Natwest Offshore and Head of US Retail Banking.

11 ORLAGH HUNT **GROUP 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. 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.

BOARD OF DIRECTORS

FROM LEFT TO RIGHT

1 JOHN NAPIER

Age 67 John joined as a Non-Executive Director in January 2003 and became Chairman of the Board and Nomination Committee in March 2003. He is a member of the Investment Committee and joined the Remuneration Committee in January 2009. He was appointed Non-Executive Chairman of Aegis Group plc (media) in June 2008 and interim Chief Executive of Aegis Group plc in December 2008. From 1999 to 2008 John was 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).

2 ANDY HASTE

Age 48 Andy joined the Board as Group Chief Executive in April 2003 and is a member of the Group Executive Team, Investment Committee and Board Risk Committee. Andy has been a member of the Board of the Association of British Insurers since 2003. Andy's previous roles include Chief Executive of AXA Sun Life plc and Director of AXA UK plc (life and pensions). He is the former President and Chief Executive Officer of Global Consumer Finance Europe at GE Capital UK, Western Europe and Eastern Europe (financial services) and is the former President of National Westminster Bank's US Consumer Credit Business (retail banking). He was appointed as a Non-Executive Director of ITV plc (media) in August 2008.

3 GEORGE CULMER

Age 47 George joined the Board as Chief Financial Officer in May 2004 and is a member of the Investment Committee, the Group Executive Team and the Board Risk Committee, which he chaired until June 2009. He was previously Head of Capital Management at Zurich Financial Services (insurance) and Chief Financial Officer of its UK operation. Before that George spent ten years with Prudential.

4 NOEL HARWERTH

Age 62 Appointed as a Non-Executive Director in March 2004, Noel joined the Board Risk Committee as Chairman in June 2009 and is a member of the Audit and Investment Committees. Noel is also a Director of Logica plc (IT and outsourcing), Impellam Group plc (support services), Harry Winston Diamond Corporation (mining and retail) and Deputy Chairman of Sumitomo Mitsui Banking Corporation Europe Limited (finance). Noel was formerly Chief Operating Officer of Citibank International plc (finance).

5 EDWARD LEA

Age 68 Appointed as a Non-Executive Director in July 2003, Edward is Chairman of the Group Audit Committee and a member of the Remuneration and Investment Committees. Edward is currently a Director of Redbourn Group Limited (property management and investment), Powertraveller Limited and MacIntyre Care (charity). He was previously a Director of BUPA.

6 SIMON LEE

Age 48 Simon was appointed as an Executive Director in January 2007 having been Chief Executive of International since April 2003 and is a member of the Group Executive Team. He is Chairman of the Codan Group and of Trygg-Hansa and is a Director of RSA Canada. Previously he spent 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.

7 MALCOLM LE MAY

Age 52 Malcolm joined the Group as a Non-Executive Director in March 2004 and is Chairman of the Investment Committee, joined the Board Risk Committee in June 2009 and is a member of the Remuneration and Nomination Committees. He is also a Non-Executive Director of Pendragon plc (general retailers) and Chief Executive of Matrix Corporate Capital LLP. Malcolm's previous roles include Deputy Chief Executive of Morley Fund Management (Investment Fund Manager) and Deputy CEO of ING-Barings (finance).

8 JOHN MAXWELL

Age 65 Appointed as a Non-Executive Director in July 2003, John is Chairman of the Remuneration Committee and a member of the Audit, Nomination and Investment Committees. John is a Director of London Finance and Investment Group plc and the Motor Sports Association. John's previous roles include Executive Director of Prudential Group plc, Chairman of DX Services plc (mail), Director of Provident Financial plc (financial services) and Homeserve plc (support services) and Director General of The Automobile Association Limited.

9 JOHANNA WATEROUS

Age 52 Johanna joined the Group as a Non-Executive Director in May 2008 and is a member of the Group Audit and Investment Committees. She is also a Director of the RBG Kew Foundation, Enterprises Limited, English National Opera and is Chairman of Britt Lintner Limited. Johanna has previously been Chairman of Tate Enterprises and spent over 20 years with McKinsey & Company, with roles including Co-leader, Global Marketing and Sales Practice and Leader of their UK Consumer Practice and the European Retail Practice.

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DIRECTORS' REPORT

The Directors of RSA Insurance Group plc (RSA) present their report and the audited financial statements of the Company for the year ended 31 December 2009

Principal activity

The Company is the holding company of the RSA group of companies (the 'Group') whose principal activity is the transaction of personal and commercial general insurance business. The Group operates in 34 countries and provides general insurance products and services in over 130 countries.

Business review

The Companies Act 2006, section 417 requires the Directors to present a business review in this report. The information that fulfils this requirement can be found in the sections below, which are incorporated by reference into this report.

- The Group CEO's review on pages 6 to 10
- The Group strategy on pages 11 to 13
- The regional business reviews on pages 14 to 25
- The financial review on pages 26 to 29
- The key performance indicators throughout the introduction and business review
- The discussion of future developments of the business in the Group CEO's review on pages 6 to 10 and in the regional business reviews on pages 14 to 25
- The discussion of principal risks and uncertainties facing the Group set out in the estimation techniques, risks, uncertainties and contingencies on pages 82 to 84, and in the risk management section on pages 30 to 32 and
- The corporate responsibility report on pages 33 to 37

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

The Group uses Key Performance Indicators (KPIs) to provide a well balanced and comprehensive review of the Group's overall performance. KPIs are monitored in a number of areas including financial, employee, customer, strategic priorities and the environment and community. Financial KPIs include the Group's combined operating ratio, expense ratio, operating result and net written premium growth. Employee KPIs include the percentage of staff that have performance related pay, the percentage of staff taking part in the employee survey and the increase in overall employee engagement levels as measured by the survey. Customer KPIs include the levels of customer retention and the Group's position in the annual benchmarking survey on complaints handling by the Association of British Insurers. Environment and community KPIs include targets on energy, travel, waste and levels of CO₂ emissions and the amount of the Group's charitable donations. Financial KPIs are highlighted on page 1 and are detailed throughout the introduction and

business review. The employee, customer and the environment and community KPIs are detailed in the regional business reviews on pages 14 to 25, the corporate responsibility report on pages 33 to 37 and in this report.

Dividends

The Directors recommend a final dividend of 5.33p per ordinary share in respect of the year ended 31 December 2009 to be paid on 4 June 2010 to holders of ordinary shares on the register at the close of business on 5 March 2010, subject to ordinary shareholder approval. This, together with the interim dividend of 2.92p per ordinary share, will make a total dividend for the year of 8.25p per ordinary share.

The preferential dividend at the rate of 3.6875% for the period from 1 October 2009 to 31 March 2010 will be paid on 1 April 2010 to holders of preference shares on the register at the close of business on 5 March 2010.

Employment policy

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

We encourage equal opportunities and diversity across the Group. This involves recruiting, engaging, retaining, rewarding and developing people solely on the grounds of ability to do the job, and establishing and promoting a working environment which is free from discrimination.

The Group is committed to the promotion of equal opportunities for all employees including those with a disability. In order to do this, we shall ensure that any reasonable adjustment is made, where it is appropriate to do so, to provide equal opportunities to all in respect of recruitment, terms and conditions of employment, promotions, transfers, grievances, redundancies and vocational training. The Group is committed wherever possible, to supporting the rehabilitation and return to work of employees who become disabled during their career with us.

The Group is committed to fostering a constructive dialogue with recognised independent trade unions, ensuring a regular and open dialogue on business issues and early consultation on changes affecting the workforce. In the UK, Unite is formally recognised through a partnership agreement which covers collective consultation and bargaining on behalf of non management employees. The Management Association (TMA) represents managerial employees under a separate consultative agreement. The European Consultative Forum (ECF) is a cross European body created to enable information sharing and consultation on transnational issues with the European workforce.

The Group continues to focus on the development of employees in order to ensure they can deliver high levels of performance. We believe we can create real competitive advantage by building and maintaining a high performance culture across the Group.

In 2009 we have continued to deliver our leadership development programmes. We have continued to accelerate the development of our in house executive talent through the Executive Development

DIRECTORS' REPORT CONTINUED

Programme which enters its sixth year in 2010. During 2009 we set up a Marketing Academy to train and develop our marketing staff and support our ambition of building a best in class marketing function.

Now into its third year, the Global Technical Graduate Programme covers business and technical essentials, continuing our commitment to growing the next generation of underwriters, claims handlers and actuaries.

Our accelerated career programme, FastTrack, has continued in all regions. There have been a total of 114 participants since the programme began in 2006 with 27 individuals from 13 different countries joining the programme in 2009.

We have seen improvements in a number of key result areas in our global employee survey. In 2009 our focus was again on employee engagement and was the second year that Gallup supported us in measuring employee engagement using the Gallup Q12® questions. With an overall response rate of 92%, an increase of 6% on 2008 we achieved a fundamental shift in engagement across all regions with a third of our teams being judged by Gallup as world class. We are the only sizeable European client of Gallup to achieve a fundamental shift in engagement this year.

Our policy is to encourage employee share ownership. Employees from 17 of the 34 countries in which RSA operates are invited to participate in our Sharesave scheme and the overall take-up by eligible employees is 47%. This year we also launched an HM Revenue & Customs approved share incentive plan, Sharebuild, in the UK with 24% of eligible employees choosing to participate. Further details on the Group's share schemes can be found in the remuneration report on pages 53 to 66.

We also encourage employees to participate in our discount schemes for employees and their families. Our Staff Saver Scheme in the UK currently has approximately 7,800 Staff Saver policies in force (2008: approximately 6,000 policies in force).

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

The Group actively encourages employees to become involved in supporting their local communities. Further details are provided in the corporate responsibility report on pages 33 to 37.

Environmental programme

Details of our environmental programme can be found in the corporate responsibility report on pages 33 to 37 and on our website at www.rsagroup.com.

Supplier payment policy

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

The Company's outstanding indebtedness to trade creditors on 31 December 2009 amounted to £2.7m corresponding to 14 days' payment when averaged over the year.

Annual General Meeting

The AGM will be held at the Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE on Monday, 17 May 2010 at 11.00 am.

Enclosed with this report is a letter from the Chairman to shareholders. Attached to the letter is the Notice convening the AGM which will include items of ordinary and special business as detailed in the Notice.

In line with other companies, we are asking shareholders to approve the adoption of new articles of association primarily to reflect the implementation of the Shareholder Rights Directive in the UK in August 2009 and the remaining provisions of the Companies Act 2006 in October 2009. We have also taken the opportunity to revise the current articles of association in order to update language, style and approach in line with best practice. An explanation of the main changes between the current articles of association and the new articles of association is set out in the Appendix to the AGM Notice sent to shareholders and is available at www.rsagroup.com.

Share capital

On 18 May 2009 the authorised share capital of the Company was increased by ordinary resolution from £1,468,750,000 to £1,881,250,000 by the creation of 1,500,000,000 ordinary shares of 27.5p each ranking par passu in all respects with the existing ordinary shares of 27.5p each in the capital of the Company.

During the year 28,969,400 ordinary shares of 27.5p each were issued in satisfaction of the exercise of employee share options for a total consideration of £11,460,043 and 61,767,996 ordinary shares of 27.5p each were issued under the Company's scrip dividend scheme for a total consideration of £76,540,441.

The Company can increase its share capital and authorise the Directors to allot further securities by ordinary resolution. As at 31 December 2009, the Directors had authority to allot securities up to a nominal amount of £305,350,938.

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 333,110,115 of its own ordinary shares (representing 10% of its issued share capital as at 16 March 2009) remained in force at 31 December 2009.

The Companies Act 2006 abolishes the requirement for a company to have an authorised share capital and the new articles of association proposed for adoption at the 2010 AGM reflect this. Directors will still be limited as to the number of shares they can at any time allot (save in respect of employee share schemes) and, as in previous years, authority to allot will be sought at the 2010 AGM.

Further details on the share capital of the Company are incorporated into this report and are set out in note 18 on pages 110 to 112.

Rights and obligations attaching to shares

The rights attaching to the ordinary shares and preference shares are set out in the Company's Articles of Association (the 'Articles'). Details of the rights and obligations attaching to shares as at 31 December 2009 are incorporated into this report by reference and are set out in note 18 on pages 110 to 112.

Employee Benefit Trusts

The Company operates three employee benefit trusts to hold ordinary shares in RSA which are used to satisfy exercises under the Group's share incentive schemes. These trusts are the Royal & SunAlliance ESOP Trust, the Royal & SunAlliance ESOP Trust No. 2 and the Royal & SunAlliance ESOP Trust No. 3 (the 'Trusts'). In each case, the Trustee is Lloyds TSB Offshore Trust Company Limited. In respect of any shares held in the Trusts, the Trustee may vote in respect of those shares, but has no obligation to do so. 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.

Substantial share interests

At the date of this report the Company had been notified by the following companies of their and their clients' voting interests in the ordinary share capital of the Company in accordance with Disclosure and Transparency Rule 5 (the number of shares and percentage interests are shown as at the relevant notification dates).

	Number of shares	Interest in issued share capital
Blackrock, Inc	189,102,514	5.53%
Schroders plc	168,680,398	5.00%
AXA S.A.	159,786,460	4.74%
Standard Life Investments	158,206,814	4.69%
Legal & General Group plc	136,295,990	3.99%

Directors

The names of the Directors, together with biographical details are set out on pages 40 and 41 and are incorporated into this report by reference.

Details of the Directors' service contracts and terms of appointment, together with their interests in the Company's shares are shown in the remuneration report on pages 53 to 66 and are incorporated into this report by reference.

Details of Directors' powers are set out in the corporate governance report on page 47 and are incorporated into this report by reference.

Directors' indemnity

Article 144 of the Articles provides that, among other things and insofar as permitted by law, every Director shall be indemnified by the Company against all costs, charges, expenses, losses or liabilities incurred in the execution and discharge of the Director's duties, power or office.

Since 12 July 2006, the Company has granted an indemnity to each of the Directors pursuant to the power conferred by Article 144. The indemnities granted constitute qualifying third party indemnity provisions (as defined by section 234 of the Companies Act 2006). The Board of Directors (the 'Board') believes that it promotes the success of the Company to provide this indemnity to its Directors in order to ensure that the Group attracts and retains high calibre Directors through competitive terms of employment in line with market standards.

Directors and officers of the Company and its subsidiaries also have the benefit of insurance which provides suitable cover in respect of legal actions brought against them.

None of the Directors had any interest in any other contract with the Company or any of its subsidiaries during 2009 save that a number of Directors have taken out personal lines insurance with the Group.

Related party transactions

Related party transactions are set out in note 32 on page 131.

Essential contracts

The Company does not consider that it, or any of its subsidiaries, has any key dependency or essential contract that is fundamental to the success of the Company that is required to be disclosed pursuant to section 417 of the Companies Act 2006.

Charitable and political contributions

The Company and its subsidiaries worldwide made charitable donations of £2,789,725 during the year, of which £1,454,012 related to donations made to UK based charities. In 2009, the largest charitable donation was to WWF-UK at a total of £840,000, being the first payment in respect of a 3 year global partnership. The partnership focuses on conservation and research projects in the UK, Canada, Scandinavia and China concentrating on environmental change and links to insurance.

The figure includes a donation of £100,000 to the Thames Rivers Restoration Trust for a flood management project in London. There is a formal Group policy currently in place which prohibits any donations to political parties.

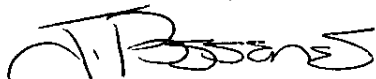
Auditor

Deloitte LLP (Deloitte) was appointed as auditor of the Company in 2007 and reappointed at each subsequent AGM. 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 auditor is unaware, and each Director has taken all steps that he ought to have taken as a Director in order to make himself aware of, and to establish that the auditor is aware of, any relevant audit information.

Deloitte have confirmed their willingness to continue in office as auditor of the Company for the year ending 31 December 2010. A resolution for their reappointment will be proposed at the 2010 AGM.

Going concern

In considering the appropriateness of the going concern basis, the Board has reviewed the Group's ongoing financial commitments for the next 12 months and beyond. The Board's review included consideration of the Group's underwriting plans, strong regulatory capital surplus, diverse insurance risk profile, considerable undrawn financing facilities and highly liquid investment portfolio. As a result of this review the Directors have satisfied themselves that it is appropriate to prepare these financial statements on a going concern basis.



By order of the Board

Julia Possener

Deputy Group Company Secretary

24 February 2010

CORPORATE GOVERNANCE

This report sets out the Company's approach to corporate governance in 2009. The report has been prepared in accordance with the Code of Best Practice set out in section 1 of the 2008 FRC Combined Code on Corporate Governance (the 'Combined Code') and sets out the extent of our compliance with the Combined Code.

Compliance with the Combined Code

Throughout 2009 the Group has complied with the Principles and Provisions of the Combined Code except that the Group has not appointed a senior independent director. The Non-Executive Directors formally consider each year whether a senior independent director is required and remain of the view that the appointment of a senior independent director is not appropriate at this time but will have regard to the various recommendations currently under discussion made in the Walker Review and FRC Review of the Combined Code. All Non-Executive Directors are encouraged to communicate directly with Executive Directors and senior management outside formal meetings and an active dialogue is maintained by the Board.

The Board

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

The business of the Company is managed by the Directors, who may exercise all the powers of the Company subject to the Articles, relevant law and any directions as may be given by the Company in general meeting by ordinary shareholder resolution. The Directors may delegate any of their powers or discretions to committees.

The Board continues to operate the procedures adopted following the introduction of the statutory directors' duty to avoid conflicts of interest and these procedures have operated effectively during the year. Under the Articles the Board may authorise any conflict of interest. The conflicted Director shall not count towards the quorum or vote on any resolution to authorise the conflict of interest and, at the Board's discretion, may be excluded from any meeting at which the conflict is under consideration. Where a conflict of interests is authorised, the Board may impose such restrictions on the conflicted Director as they deem appropriate such as excluding the Director from receipt of information or discussions. Under the procedure adopted by the Board each Director is required to notify the General Counsel and Group Company Secretary when a conflict of interest arises and the Board also reviews Directors' conflicts of interest annually.

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

	Notes	Board meetings	Board Committee	Group Audit Committee	Remuneration Committee	Board Risk Committee	Investment Committee	Nomination Committee
Total number of meetings in the year	1	12	7	5	8	5	2	1
George Culmer		12	7			5*	2	
Noel Harwerth	2	11		5		3*	2	
Andy Haste		12	7			5	2	
Edward Lea		10		5*	7		2	
Simon Lee		10						
Malcolm Le May	2	11			8	3	2*	1
John Maxwell		9	1	4	6*		2	1
John Napier		12*	1		8		2	1*
Johanna Waterous		10		4			2	

*Chairman of the Board or Board Committee. Noel Harwerth succeeded George Culmer as Chairman of the Board Risk Committee with effect from 3 June 2009.

Notes

- 1 In addition to attendance as above, Andy Haste and George Culmer regularly attend by invitation meetings of the Group Audit Committee. Andy Haste regularly attends meetings of the Remuneration Committee.
- 2 Noel Harwerth and Malcolm Le May were appointed to the Board Risk Committee with effect from 3 June 2009 and have attended all three meetings of the Committee since their appointment.

CORPORATE GOVERNANCE CONTINUED

The specific duties of the Board are clearly set out as a formal schedule of matters specifically reserved to it, which can only be amended by the Board itself and which is reviewed annually. Matters reserved to the Board include:

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

The Board met twelve times during the year ended 31 December 2009. The attendance of Directors at meetings of the Board and at Board Committees of which they were members during the year is set out in the table on page 47.

Board balance and independence

Details of the Directors who served during the year can be found on pages 40 and 41.

At all times during the year, at least half of the Board, excluding the Chairman, comprised non-executive directors. All Non-Executive Directors have been determined by the Board to be independent. The Chairman meets regularly with the Non-Executive Directors both individually and collectively without the Executive Directors being present. The Chairman is currently Non-Executive Chairman and acting interim Chief Executive of Aegis Group plc pending an appointment to that position. The Chairman met the independence criteria of the Combined Code on his appointment in 2003 and continues to meet the criteria set out in the Combined Code. Andy Haste was appointed as a Non-Executive Director of ITV plc in 2008 at which time ITV plc was a constituent of the FTSE 100. ITV plc is currently a member of the FTSE 250. No other Executive Director served on the board of a FTSE 100 company during the year.

Directors have access to the services and advice of the General Counsel and Group Company Secretary and in addition may take independent professional advice at the expense of the Company in furtherance of their duties.

Appointments to the Board

The Board considers the leadership needs and succession planning of the Board when making decisions on new appointments. The Board also ensures that succession planning processes and plans are in place with regard to senior appointments both below and at Board level. When appointing new Directors, regard is given to the size of the Board, 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.

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. A Director who is appointed by the Directors shall retire at the following AGM and will put himself forward to be elected by the ordinary shareholders. In accordance with the Articles and the Combined Code, the Directors submit themselves for reappointment at the first AGM after their appointment and for re-election every three years thereafter. 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 Directors proposed for re-election by rotation at the 2010 AGM are George Culmer, Simon Lee, Noel Harwerth, Malcolm Le May, Edward Lea and John Maxwell. The Company may (by ordinary resolution of which special notice has been given) remove any Director before the expiration of his period of office.

Induction and professional development

On appointment to the Board, Directors undertake an induction programme and receive a range of information about the Company when they join the Board. This includes background information on the Group and details of Board procedures, governance issues and directors' responsibilities. The induction programme also includes a series of meetings with members of the Board and executive management, together with various briefings and presentations regarding the business and regulatory matters from executives.

Development and training for the Directors is an ongoing process which includes briefings on legislative and regulatory changes and on corporate governance issues. Directors also receive regular presentations about the Company's operations and there are regular discussions on strategy, customer marketing, employee engagement and environmental, social and governance matters. Opportunity is also created for Non-Executive Directors to make informal visits to different parts of the Group and to meet with local management.

Performance evaluation

In 2009 the Board undertook an annual evaluation of its performance to assess how well the Board, its Committees and the Directors were performing. The review included the use of a comprehensive questionnaire. Responses from the questionnaire were collated and subsequently discussed by the Board and they have concluded that the Board was operating well. Following the 2009 review the Board have continued to improve agenda management for Board meetings to ensure that adequate time is made for the debate and exchange of ideas to support effective decision making.

The Chairman has recommended that an external review of the Board be carried out in 2010 in accordance with current best practice.

The Non-Executive Directors are responsible for the evaluation of the Chairman's performance and take into account the views of the Executive Directors in their evaluation. As part of the ongoing performance evaluation process the Chairman has regular one to one meetings with each of the Non-Executive Directors

Chairman and Chief Executive Officer

The roles of the Chairman and the Group CEO are separate, with responsibilities clearly divided between them. This separation of responsibilities is formalised in role statements which have been reviewed and approved by the Board

The Chairman is responsible for leading the Board, liaising as necessary with the Group CEO on developments between Board meetings and ensuring that both the Group CEO and his executive management team have appropriate objectives and that their performance against those objectives is reviewed. The Group CEO is responsible to the Board for the executive management of the Group and for liaising with the Chairman and keeping him informed on all material matters

Remuneration

Details of the Directors' remuneration and the Group's policies on remuneration are set out in the remuneration report on pages 53 to 66

Financial reporting

The Directors are required to ensure that adequate accounting records are maintained so as to disclose at any time, and with reasonable accuracy, the financial position of the Group. They are also responsible for taking reasonable steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities

The Directors must present financial statements for each financial year, in accordance with applicable law, accounting standards and regulations, which give a true and fair view of the state of affairs of the assets, liabilities, financial position and the profit or loss and cash flows for the Company and the Group as a whole for that period. Financial statements for the Group are prepared in accordance with International Financial Reporting Standards (IFRS), the Companies Acts 1985 and 2006, the Listing Rules of the UK Listing Authority and Article 4 of the IAS Regulations

In preparing such financial statements the Directors are required to

- Select suitable accounting policies and apply them on a consistent basis using reasonable and prudent judgement
- State whether or not applicable accounting standards have been followed and explain any material departures
- State whether the Group financial statements have been prepared in accordance with IFRS and
- Use the going concern basis unless it is inappropriate to do so

The Directors confirm that they have complied with the above requirements in preparing the financial statements

The FSA

The Board is also responsible to the Financial Services Authority (FSA) for ensuring compliance with the Group's UK regulatory obligations. The Board attaches great importance to its regulatory responsibilities and is committed to dealing with the regulator in an open, cooperative and transparent manner. In the second half of 2009 the FSA conducted an ARROW Risk Review of both the Group and UK operations. This included a review of the Company's Individual Capital Assessment and of Treating Customers Fairly. During 2009 the FSA also conducted private meetings with several members of the Board and executive management as a part of their 'close and continuous' programme

In addition, the Group includes a number of regulated entities which rely on various licences to carry out their business. Accordingly, maintaining effective relationships with the Group's regulators is integral to the success of the Group's strategies and its long term value

Dialogue with institutional shareholders

The Board attaches considerable importance to its relationships and communication with shareholders. Senior management meet principal institutional shareholders on a regular basis and small shareholder groups on request, and Non-Executive Directors are available to meet with institutional shareholders as required. Over 70 meetings with investors were held during 2009. General shareholder information is also available on the Group's website www.rsagroup.com

Constructive use of the Annual General Meeting

All ordinary shareholders are invited to attend the Company's AGM. The AGM Notice is despatched to ordinary shareholders at least 20 working days before the meeting and contains separate resolutions on each substantive issue, including a resolution to adopt the Annual Report and Accounts. All Directors are requested to attend each AGM. The Chairman and the chairmen of the key Committees of the Board make themselves available to take questions from ordinary shareholders at and after the AGM. Details of the circumstances in which preference shareholders are entitled to receive notice of, attend, speak and vote at general meetings is contained in the 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 or electronic form, not less than 48 hours before the time for holding the meeting (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)

CORPORATE GOVERNANCE CONTINUED

At any general meeting every shareholder present shall have one vote on a show of hands, and on a poll every 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 2009. Voting at the AGM is conducted electronically, with the results being announced to the London Stock Exchange and on the Company's website.

Corporate governance framework

The Group's corporate governance framework describes and prescribes how the Group is directed and managed by setting out the matters reserved for the Board, the terms of reference of the Board and management committees, role statements, policies, systems, procedures and controls.

The terms of reference for key committees of the Board explaining their role and the authority delegated to them are available on the Company's website www.rsagroup.com.

Group Audit Committee (GAC)

Chaired by Edward Lea, the GAC's principal duties are as follows:

- To coordinate and have oversight of the Group's financial reporting process
- To monitor compliance with relevant regulations, industry codes and legal requirements
- To have oversight of internal and external audit functions
- To manage the effectiveness of the systems of internal controls
- To review the Group's financial performance and
- To provide assurance on the effectiveness of the Group's risk management arrangements

The full terms of reference are available at www.rsagroup.com.

The Committee is comprised of Non-Executive Directors, all of whom are deemed to be independent and the Combined Code requirement for at least one Committee member to have recent and relevant financial experience is met. Details of the members of the GAC and their attendance at GAC meetings are shown in the table on page 47. The General Counsel and Group Company Secretary acts as the Secretary to the GAC. The Group CEO, Chief Financial Officer (CFO), Group Chief Auditor, Group Operations & Risk Director, Group Head of Regulatory Risk and Compliance and a representative of the external auditor are regular attendees by invitation and the GAC holds regular meetings with the Group Chief Auditor and the external auditor without any members of management being present. The Chairman and other members of executive management are also invited to attend from time to time. The outcomes of meetings are reported to the Board and the Board receives the minutes of all the GAC meetings.

The GAC has unrestricted access to Company documents and information, as well as to employees of the Company and external professional advisers.

Regular reports are received and reviewed by the GAC from the Disclosure Committee, regional audit committees and in relation to the Financial Control Framework and Enterprise Risk Management.

The GAC annually reviews the Group's Whistleblowing Policy and is satisfied that the policy meets the criteria set out in the Combined Code. This policy deals with employees who wish to raise serious concerns in good faith, and who either do not feel comfortable raising the matter with local management or are not satisfied with the local management response. They can raise their concerns with the Group Chief Auditor, who will either investigate or arrange for an investigation of the matter. Employees are offered such safeguards and support as may be necessary to protect their personal integrity and, where possible, identity.

The GAC annually reviews its effectiveness. In 2009 this review was carried out using a questionnaire circulated to the Committee members, regular attendees and the Chairman of the Company and a report of the results was discussed at a GAC meeting. Overall the self assessment was strong and outcomes included an agreement to review the Enterprise Risk Management Plan twice a year and the organisation of a briefing session for Non-Executive Directors which was held in October 2009.

The GAC is satisfied that, during 2009, it has received sufficient, reliable, and timely information from management to enable it to fulfil its responsibilities.

External auditor

During the year, Deloitte was engaged as an advisor 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 the external auditor's statutory duties. Details of fees paid to Deloitte during 2009 for audit and non audit work is disclosed in the external auditor remuneration table in note 4 on page 100.

The GAC has reviewed the independence, effectiveness and objectivity of the external auditor in 2009 and concluded that Deloitte provided a service that was robust and fit for purpose

Accordingly, the GAC recommended to the Board that a resolution be put to the 2010 AGM for the reappointment of Deloitte as external auditor and the Board has accepted this recommendation

Internal audit

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

The internal audit function reports to management on the effectiveness of the Company's systems of internal controls, the adequacy of these systems to manage business risk and to safeguard the Group's assets and resources. The GAC reviews and approves the Group Internal Audit Plan for each year and in December 2009 approved a revised mandate and three year strategy of the internal audit function. The internal audit function is periodically evaluated and the next external assessment will be carried out in 2010

Internal control

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

The performance of internal control systems is reviewed regularly by the GAC and the Board annually reviews the effectiveness of the Group's systems of internal control in order to safeguard the Group's assets and shareholders' investment. This system includes governance, financial controls, the risk management framework and the process to deliver regulatory and compliance requirements. The systems are designed to identify and mitigate, rather than eliminate, the potential risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material financial misstatement or loss. Following the review of the internal control systems, the Board confirmed that the actions it considered necessary to rectify any significant failings or weaknesses have been or are being taken

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

Each quarter there is a self certification process completed by business managers across the Group to confirm the adequacy of controls and their compliance with Company policies, laws, rules and regulations

The Board considers that the current reporting framework delivers sufficient information to monitor the systems of internal control and to review their effectiveness as required by the Combined Code. The Board therefore considers that an ongoing process for identifying, evaluating and managing the significant risks faced by the Group has been in place during 2009 and up to the date of approval of the Annual Report and Accounts. This process is regularly reviewed by the Board and accords with the Turnbull Guidance on the Combined Code

Key features of the current internal control systems of the Group include internal audit, the corporate governance framework, dialogue with institutional shareholders, constructive use of the AGM and the areas explained below

Board Risk Committee (BRC)

Chaired by Noel Harwerth, the BRC's principal duties are as follows

- To recommend the Group framework of risk limits and risk appetite to the Board for approval
- To approve the Reinsurance Framework, risk profile and aggregate exposure limit recommended by the Group Reinsurance Credit Committee
- To approve the quantum of ICA/ECA capital required as recommended by the ICA and Capital Allocation Steering Group including a review of the overall assumptions, results and key changes
- To review the proposed strategic direction and guidance for Solvency II compliance and make recommendations to the Board
- To review the proposed risk management and regulatory compliance strategies of the Group and recommend their approval to the Board
- To ensure that the material risks facing the Group have been identified and that appropriate arrangements are in place to manage and mitigate those risks effectively
- To ensure the risk profile and mitigating actions address issues relating to the Group's control environment
- To review and challenge risk information received from the Group's risk functions to ensure that the Group is not exceeding the risk appetite set by the Board
- To present a profile of the Group's key risks and associated controls to the Board at least annually
- To review the draft of the remuneration report to be included in the Company's Annual Report and Accounts (to the extent not reviewed by the Board as a whole) and report any views on any implications of the Group's remuneration policies for risk and risk management to the Board

The regional Risk Committees for each of the UK, Emerging Markets and International regions provide regular reports to the BRC

Noel Harwerth and Malcolm Le May joined the Committee with effect from 3 June 2009 with Noel Harwerth succeeding George Culmer as Chairman of the Committee at that date. Other members of executive management are regular attendees together with the regional risk directors.

Investment Committee

The Investment Committee is chaired by Malcolm Le May and comprises all of the Non-Executive Directors, the Group CEO and the CFO. The Committee met twice during 2009. The Committee assists the Board in setting the Group's investment strategy and monitors the execution of that strategy and the Group's investment performance. In addition to his reports to the Investment Committee, the Group Investments Director also attended a Board meeting and provided update papers to the Board during 2009.

Nomination Committee

Chaired by John Napier the principal duties of the Committee are as follows:

- To regularly review the structure, size and composition of the Board including the balance of skills, knowledge and experience of the Board
- To keep under review the leadership needs of the organisation, both executive and non-executive and satisfy itself that appropriate succession plans and processes are in place for Board and senior appointments
- To prepare a description for the role and capabilities required for a particular appointment and to seek advice from external advisers in relation to any appointments
- To identify and nominate candidates for the approval by the Board to fill Board and Committee vacancies as and when they arise
- To ensure that existing Directors seeking permission to join other public company boards have the approval of the Committee, taking account of capacity, work involvement and any perceived conflicts of interests and
- To make recommendations to the Board on the continuing appointment and re-election of Directors

The full terms of reference are available at www.rsagroup.com

Details of the members of the Committee and their attendance at Committee meetings are shown in the table on page 47. The Committee met once during 2009.

Financial Control Framework

The Financial Control Framework aims to deliver a consistent approach to finance related controls across the Group that is 'fit for purpose' for all regions, embedding a control culture that will strengthen the Group's finance environment by ensuring that the Group's financial processes are managed effectively in order to mitigate the associated risks. This is done by documenting and testing the way that core elements of the business work, providing

a high degree of transparency around the Group's financial control environment. The Group has people, procedures and tools embedded in the business to maintain and streamline the control environment, and to provide ongoing reporting and assurance. Quarterly reports are presented to the GAC which include notification of any control deficiencies or breaches in the period and action taken.

Delegated authorities

The Group operates a Delegated Authority Framework which specifies how executive authority is delegated from the Board to the Group CEO and on to other executives in the Group. Individual executive licences set out specific limits of authority in terms of entering into financial, underwriting and other business commitments. Each executive is responsible for ensuring a similar process of delegation is in place within his or her area of responsibility.

Further detail on risk management are set out on pages 30 to 32.



By order of the Board

Julia Possener

Deputy Group Company Secretary

24 February 2010

REMUNERATION REPORT

The following report by the Remuneration Committee has been approved by the Board for submission to the shareholders at the 2010 AGM

Deloitte have audited the following items stipulated in law for their review

- The table of Directors' emoluments and associated footnotes on page 61 and the disclosure of the items comprising benefits in kind
- The tables of defined benefit and defined contribution pensions on page 62 and associated footnotes
- The table of disclosure of Directors' share options and share awards on pages 63 to 66 and associated footnotes

In constitution and operation the Committee complies fully with the Combined Code as described in the corporate governance section of this report on page 47

Principal duties of the Remuneration Committee

The Committee is a formal Committee of the Board and is accountable to shareholders through its annual remuneration report, which is voted on at the AGM, and remains committed to reflecting the best interests of shareholders and to the pursuit of best practice in remuneration policy

The Committee's principal duties are as follows

- The determination of the terms and conditions and remuneration of the Chairman of the Board and the Executive Directors
- Overseeing the operation of the Company's share based long term incentive schemes, including approving the value and timing of awards and overseeing the operation of performance conditions
- Consideration of, and advice to the Board on the Group's broader remuneration policy in relation to senior executives reporting to the Group CEO (the 'Executive Team')
- 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 Chairman presents a formal report of the Committee to the Board following each meeting of the Remuneration Committee. The Committee presents a summary of its principal activities to shareholders through this report, and the Committee Chairman attends the AGM to answer questions from shareholders on the activities of the Committee and its remuneration policies

The Committee's responsibilities are set out in its terms of reference which are available to shareholders on request and on our website at www.rsagroup.com. The Committee welcomes ongoing dialogue with shareholders on remuneration policy

Membership of the Remuneration Committee

During the year the Directors who served on the Committee were John Maxwell (Chairman), Edward Lea, Malcolm Le May and John Napier

All of the Non-Executive Directors on the Committee were determined by the Board to be independent. The attendance of members in 2009 is shown in the table on page 47. Malcolm Le May was also a member of the Board Risk Committee during the year. As a result, decision making on remuneration matters is consistent, with risk being properly taken into account.

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. 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 60.

Advisors to the Remuneration Committee

In developing remuneration strategy during the year, the Committee obtained its principal advice from Towers Perrin LLP, who were appointed by the Committee. In addition to providing independent advice to the Committee, Towers Perrin LLP provides broad reward and pensions advice to the Company. Towers Perrin LLP merged with Watson Wyatt in January 2010 and will continue to provide advice to the Committee as Towers Watson in 2010.

The terms of engagement for the remuneration consultants are available to shareholders on request and on our website at www.rsagroup.com

The Group CEO is invited to attend all meetings of the Committee to provide context and advice to the Committee on Group strategy and performance and senior executive pay strategy. The Group Human Resources Director and the Group Director, Reward and Recognition normally attend meetings to provide information on wider remuneration strategy and practice within the Group. The Chairman became a member of the Committee with effect from 1 January 2009. The General Counsel and Group Company Secretary acts as Secretary to the Committee. None of the non-Committee attendees are present as of right, and do not attend when their own remuneration is discussed.

Activities of the Remuneration Committee

The continuing focus of the Committee is the maintenance of a strong link between performance and reward. It is the Committee's view that the interests of shareholders are best served by ensuring a remuneration structure which has a significant element of performance related pay, and reinforces the culture of high performance and accountability that applies at all levels throughout the Group, without undue risk.

The Committee is required by its terms of reference to meet at least twice each year, but meets as often as necessary throughout the year to ensure that it is able to fully report to the Board and shareholders on all relevant matters. In 2009, the Committee met eight times and discussed, amongst other things, the subjects described on page 55.

REMUNERATION REPORT CONTINUED

ELEMENTS OF REMUNERATION

REMUNERATION	PURPOSE	DELIVERY	POLICY DETAIL
BASE SALARY	To reflect the market value of the role and the skills and experience of the individual	• Cash • Monthly • Pensionable	• Reviewed annually, changes effective from 1 April • Benchmarked against equivalent roles in similar companies and with reference to the sustained performance of the executive
ANNUAL PERFORMANCE BONUS	To incentivise the delivery of annual goals at Group, business area and individual levels	• Maximum opportunity of 180% of base salary • One third of the annual bonus received is to be in the form of compulsory Deferred Shares under the LTIP • Executive Team members are expected to defer an additional element of their cash bonus so that the total deferral is 50% of the bonus paid • Annual • Non pensionable	• Financial targets are measured against key financial measures for Group and business areas • Individual targets are approved by the Remuneration Committee • Up to a further 33% of net cash bonus paid may be reinvested in voluntary Deferred Shares under the LTIP
LTIP	To reward the creation of sustained growth in shareholder value	• Performance Shares subject to stretching performance conditions • Matching Shares awarded linked to Deferred Shares, also subject to performance conditions • Annual awards that may vest after three years • Non pensionable	• Discretionary awards • Participation reviewed annually • ROE measure, together with TSR performance measured against a peer group of companies • Full details of performance measures and vesting described on page 58
PENSION	To provide appropriate and competitive post retirement benefits	• Deferred income • Paid monthly	• Defined benefit scheme or defined contribution scheme, and/or cash allowance in lieu of pension contributions

At its meeting in February 2009, the Committee approved the 2008 remuneration report, agreed changes to variable pay policies for Executive Directors, reviewed proposals for new share plans, and reviewed the proposed annual objectives and performance goals for Executive Directors in 2009. In March 2009, the Committee reviewed the base salaries of the Executive Directors, determined the outcome of annual bonuses for 2008 in the light of actual performance against agreed goals and objectives, reviewed a forecast of share usage for Long Term Incentive Plan (LTIP) awards in 2009 and approved the grant of LTIP awards in April 2009. When the Committee met in July 2009 it approved LTIP awards to be granted in September 2009 and approved the grant of awards under the RSA Sharesave Plan ('Sharesave') and RSA Share Incentive Plan ('Sharebuild') for 2009. In September 2009 the Committee reviewed the Walker Report and FSA guidelines including risk management processes in relation to executive remuneration. The Committee reviewed remuneration arrangements to ensure that the potential amount of remuneration and the stretch in performance targets do not implicitly encourage excessive risk taking. We are satisfied that our current arrangements do not do this. The Committee also undertook a review of high potential executives and managers below Executive Committee level including Executive and Non-Executive succession planning and associated processes. At the December 2009 meeting the Committee reviewed TSR performance over the year and approved the share usage for Sharesave and Sharebuild.

Remuneration policy principles

The Committee's remuneration policy is consistent with the high performance culture across the Group. The key principles which underpin the remuneration policy are:

- Total remuneration is set at a level which enables the recruitment, retention and motivation of high quality executive talent
- There is a strong and visible link between remuneration and performance
- Executive remuneration and shareholder interests are strongly aligned. This is reflected in the design of the LTIP, which provides a co investment opportunity
- The observation of existing share ownership guidelines to further enhance the alignment of shareholder interests with those of Executive Directors
- Incentive arrangements are leveraged so that only exceptional performance attracts the highest levels of award
- A balance of short and long term performance is used, incorporating measures of financial performance, delivery of shareholder value and a robust assessment of personal contribution
- Remuneration policy and practice is transparent to shareholders
- That, where relevant, there is consideration of environmental, governance and social risks when determining remuneration for Executive Directors and senior managers to ensure that positive behaviours are reinforced

Elements of remuneration

Remuneration for Executive Directors in 2010 will consist of the four principal elements described in the table on page 54, of which only base salary is pensionable.

This structure is replicated for other members of the Executive Team. As an indication of the balance of remuneration, including long term incentives (LTIs), the charts on page 56 illustrate the remuneration attributable to the Executive Directors over the year excluding allowances and pension provision.

Base salary

Policy Base salary is set with reference to equivalent roles in similar companies and the sustained performance of the executive.

Base salaries for Executive Directors and members of the Executive Team are set on appointment with reference to market data. To enable the Group to compete for the most talented executives, the Committee relates base salary levels to the median level for equivalent roles in similar companies facing similar levels of complexity and challenge in the UK and internationally. In the UK, the comparator group most frequently used is a selected group of financial services companies within the FTSE 100. The Committee also has regard to levels of base pay within European and international companies.

The Committee is alert to market concerns surrounding base pay increases and closely monitors basic pay (and total remuneration) for Executive Directors in the light of both the market and individual and corporate performance, as well as the levels of pay increases available for all employees. In 2009, Executive Directors were eligible for a base pay increase at the same level as any other UK based employee with the same performance rating. The Committee is confident that the structures and processes in place for reviewing annual salary increases are robust.

2009 pay review

In 2009, base salaries were primarily reviewed on the basis of market movements and individual performance. The Committee analysed the remuneration details of a comparator group comprising UK and international financial services companies and awarded salary increases with reference to the median position for equivalent roles in that group.

The 2009 salary review process resulted in the following increases, effective from 1 April 2009:

	Position	Increase	Base salary
Andy Haste	Group CEO	5%	£955,000
George Culmer	Chief Financial Officer	5%	£556,500
Simon Lee	International CEO	5%	£428,400

REMUNERATION REPORT CONTINUED

2010 pay review

As at 1 April 2010, no increase in base salary will be awarded to Executive Directors or members of the Executive Team

The following table sets out the base salaries of UK based executives below Board level on a banded basis as at 31 December 2009. No such executive received a base salary in excess of £371,000

Base salary range	Number of employees
£250,001 and over	13
£200,001 – £250,000	16
£150,001 – £200,000	36

Annual performance bonus

Policy Bonus payments are related to stretching performance targets and are capped at 180% of base salary. For maximum bonuses to be achieved outstanding performance must be demonstrated

The Executive Directors and the Executive Team participate in an annual bonus plan. If the stretching targets required to achieve on target level are achieved, Executive Directors receive a cash bonus of up to 60% of base salary and Deferred Shares worth up to 30% of base salary. For outstanding performance, a cash bonus of up to 120% of base salary and Deferred Shares worth up to 60% of base salary are achievable. Deferred Shares are described in the section headed share based long term incentive awards on page 57.

The targets used for determining the amount of bonus payable are a combination of stretching business performance targets and the results of a structured assessment of each executive's performance against detailed and specific personal objectives.

Financial targets in 2009 were measured against combined operating ratio (COR) targets which are the preferred measures for the Group. COR is a key indicator which captures the underlying strength and performance of an insurance business. To achieve focused incentivisation, for each Executive Director financial targets are weighted towards the area of the business for which they have primary responsibility.

The financial targets that applied to the annual performance bonus in 2009 for Andy Haste and George Culmer were a combination of targets relating to the overall Group COR result and the COR results of the regional operating businesses. The financial targets for Simon Lee's annual performance bonus were weighted towards the International business while also retaining a target for the Group COR result as a whole.

Personal targets are reviewed and approved by the Committee early in the financial year. The Group CEO's performance is assessed annually by the Chairman of the Board and members of the Committee. The Group CEO carries out a similar assessment for each of his direct

For the purposes of the charts, the bonus value is based on the cash bonus plus the fair value of the compulsory Deferred Shares. The LTI value is based on the fair value of awards of Performance Shares and half of the maximum potential number of Matching Shares that may vest (subject to performance) relating to voluntary and compulsory Deferred Shares under the LTIP. Details of how the fair values have been calculated are set out in note 27 on page 124 to 128.

reports, subject to review and sign off by the Committee in the case of Executive Directors. Assessments also take account of appropriate leadership style and each executive receives a performance rating against the standard scale used at all levels in the business.

Bonuses paid to Executive Directors in respect of the performance year 2009 are included in the table of Directors' emoluments on page 61. The Committee is satisfied that the bonus payments made in respect of 2009 reflect the consistently strong COR results across the Group throughout 2009, and the contribution made by each Executive Director.

UK based executives who are members of the Top 100 participate in a bonus plan which is structured in the same way and measured using the same metrics as the plan described above. For outstanding performance a cash bonus of up to 80% of base salary and Deferred Shares worth up to 33% of the cash bonus are achievable.

Executives are also offered the opportunity to voluntarily invest up to 33% of the cash element of their bonus into Deferred Shares.

In 2009 (under the LTIP) an award of Matching Shares was made on a pro rata basis to the Deferred Shares. Matching Shares may vest subject to the performance conditions described on page 58 of this report.

The Committee reserves the right to reduce the permissible investment below this level. However, the LTIP will continue to operate on the same terms in 2010.

Share based long term incentive awards

Policy To provide annual share awards to executives to ensure alignment with shareholder interests solely through the LTIP. **Except in exceptional circumstances, no other discretionary share plan will be used to make awards.**

Prior to the approval of the LTIP, two share incentive plans were operated:

- The 2004 Share Matching Plan, which was designed to operate for two years. The final awards under this plan were made in 2005.
- The Executive Share Option Scheme (1999 ESOS). Regular awards under the 1999 ESOS were discontinued from 2006 and as the 1999 ESOS expired in 2009, a renewed Executive Share Option Scheme ('new ESOS') was adopted by the Company and approved by shareholders at the 2009 AGM. As with the 1999 ESOS, it is intended that the new plan will initially be used only in exceptional circumstances, such as executive recruitment. Performance conditions will attach to all options granted under the new ESOS, and will be determined by the Committee at the appropriate time.

The primary long term incentive is the LTIP, the key features of which (and associated policies) are summarised in the sections below.

Awards under the LTIP will be funded through a combination of new issues and shares purchased in the market.

Conditional awards of Performance Shares

Participants may receive a conditional award of shares with the grant level and performance condition determined by the Committee prior to each grant. Executive Directors, members of the Executive Team and the Top 100 will be eligible for awards of Performance Shares.

In 2010, awards of Performance Shares to Executive Directors and the Executive Team will be limited to a maximum face value of 150% of base salary, other than in exceptional circumstances. Account will be taken of personal performance in determining the scale of the award to each Executive Director and members of the Executive Team. For executives below this level, awards are made based on a formula which relates the size of award to performance and potential, 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 an executive recruitment.

Performance Shares will vest after three years subject to the performance condition (see 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).

Deferred Shares

As described in the annual performance bonus section on page 56, Executive Directors, members of the Executive Team and the Top 100 may be granted Deferred Share awards as part of the annual bonus. These Deferred Shares may not be withdrawn and will normally vest three years from the date of grant subject to continued employment with the Group.

In addition, executives may invest an additional portion of bonus in Deferred Shares on a voluntary basis. Voluntary Deferred Shares are not at risk of forfeiture and may be withdrawn at any time (but the right to Matching Shares would lapse on those Deferred Shares withdrawn).

Conditional awards of Matching Shares

Executives may receive a conditional award of Matching Shares pro rata to the number of Deferred Shares held. At threshold performance the matching ratio will be 0.625:1. The maximum matching ratio for Matching Shares/Deferred Shares will be 2.5:1, calculated on the gross value of the bonus invested in Deferred Shares. Details of the performance condition used are described on page 58.

REMUNERATION REPORT CONTINUED

Executive Directors, members of the Executive Team and the Top 100 will be eligible for awards of Matching Shares

Matching Shares will vest after three years subject to the performance condition (see 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)

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 2010 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

As in 2009, ROE will be given greater prominence than relative TSR, to underline our commitment to improving the returns that we generate on our balance sheet. The vesting of 70% of the LTIP awards will be based on 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)

70% of the shares comprising the award will vest according to ROE performance. For awards made in 2009, the ROE target range was 10% to 16%. If the average annual ROE over three years is 10%, 25% of that element of the award will vest. If underlying average ROE over three years is 16% or more, all of that element of the award will vest. There will be a straight line vesting scale between these two points. The range of ROE performance targets has varied from year to year, and is summarised below:

Year of grant	Range start	Range end
2006	10%	16%
2007	10%	16%
2008	12%	18%
2009	10%	16%
Range to be applied in 2010	10%	16%

30% of the shares comprising the award will vest according to TSR performance against a comparator group of UK and international financial services companies. Below median performance, no part of the award subject to the TSR performance condition will vest. At median performance, 25% of the award will vest. At upper quintile (top 20%), 100% of the award will vest. Vesting will be on a straight line basis in between

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 will consist of the following companies.

Comparator companies

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

During 2009, Alleanza was taken over by Generali. The Committee resolved to remove Alleanza from the comparator group for the purpose of measuring TSR performance for awards made in 2007, 2008 and 2009. 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 Group's TSR will be independently calculated and verified by the Committee for the purposes of awards made in 2010 under the LTIP.

The vesting of Matching Shares related to voluntary Deferred Shares will be determined solely by the ROE performance condition.

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.

Dilution

Dilution levels for all schemes are held strictly within the Association of British Insurers (ABI) limits (10% over ten years for all schemes and 5% for discretionary schemes). The dilution levels compared to ABI limits as at 31 December 2009 were:

ABI limit	RSA dilution
10% over ten years for all share schemes	6.04%
5% over ten years for discretionary schemes	3.57%

Share ownership guidelines

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

The Group CEO is required to build and 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 gain under all executive schemes until the relevant guideline is attained. This requirement will apply to awards under the LTIP and will continue to apply to awards under all existing long term incentive plans.

The following table shows the number of shares (including voluntary Deferred Shares held under the LTIP) held by each Executive Director at 31 December 2009 and the increase in shareholding over the year.

	Shares held	% increase	% salary*
Andy Haste	2,448,691	65	309
George Culmer	676,722	108	147
Simon Lee	726,485	52	205

*Assuming share price of 120.6p (the closing middle market price on the last dealing day of the year)

Pension provision and other benefits

Policy: Reasonable provision in line with arrangements made in similar companies will be made to allow executives to plan effectively for their retirement.

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 will be calculated with reference to capped salary of £75,000. Benefit will then accrue under the RSA Stakeholder Plan (a defined contribution plan) in respect of base salary from £75,000 up to the previous salary cap (£123,600 for the tax year commencing 6 April 2009). Participation in the 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 receives an age related taxable cash allowance to enable him to make his own provision for retirement above the cap. In 2010 he will be paid an allowance of 36% of base salary for this purpose.

George Culmer is a member of the RSA Stakeholder Plan. In 2010, as in 2009, he will receive employer contributions worth 15% of base salary, subject to an employee contribution of 5% of base salary up to the HM Revenue & Customs annual allowance as applicable.

Additionally, George Culmer receives a taxable cash allowance of 15% of base salary, in order to bring his overall pension provision closer to the market median.

Simon Lee elected not to join a Group pension plan on appointment, and receives a taxable cash allowance of 17.5% of base salary instead.

In addition, the Executive Directors participate in 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 car allowance. In common with other employees, the Executive Directors are eligible to participate in Sharesave and Sharebuild.

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. 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.

Director	Effective date of contract	Notice period
Andy Haste	2 April 2003	12 months
George Culmer	1 May 2004	12 months
Simon Lee	30 April 2003	12 months

Andy Haste's service contract expires under normal circumstances in January 2024. The service contracts for George Culmer and Simon Lee terminate under normal circumstances in October 2024 and March 2023 respectively. These service contracts may all be terminated earlier by the Company, or the individual, on 12 months' notice.

External directorships

Where appropriate, the Group encourages Directors and other senior managers to accept, subject to the approval of the Chairman and the Group CEO, an invitation to join the board of another company 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. For Executive Directors and other members of the Executive Team, external appointments are limited to one.

Andy Haste is a Non-Executive Director of ITV plc. During the year he received a fee of £65,000. At the date of this report Mark Chambers held a directorship in a not for profit organisation.

REMUNERATION REPORT CONTINUED

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 fee structure for Non-Executive Directors is shown below.

	£
Base fee	45,000
Plus	
Chairman of Group Audit Committee	20,000
Chairman of Remuneration Committee	12,500
Chairman of Investment 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 bonus payments or pension arrangements, nor do they participate in the Group's long term incentive plans.

The Committee determines the Chairman's remuneration. The fee payable to John Napier in respect of his appointment as Chairman of the Board was £325,000 p.a. until the end of his previous term of appointment which ended on 31 December 2008, and was not increased for three years. In 2009, the fee payable to John Napier was £400,000 for the first year of his current appointment and is subject to annual review by the Committee. As at 1 January 2010, the Chairman's fee has not been increased.

The appointment may be terminated by the Chairman on three months' notice to the Company.

Non-Executive Directors do not have service contracts but each has a letter of appointment. The letters of appointment all request a period of one month's notice should the Non-Executive Director wish to resign.

Non-Executive Director	Effective date of letter of appointment
Edward Lea	10 July 2003
John Maxwell	10 July 2003
Noel Harwerth	30 March 2004
Malcolm Le May	30 March 2004
Johanna Waterous	20 May 2008

All Non-Executive Directors (including the Chairman) are subject to a three year rolling period of appointment in accordance with the Articles.

John Napier's initial letter of appointment was effective 9 January 2003 and the term of his appointment was three years. At the beginning of 2006 it was extended until 31 December 2008, and was extended again with effect from 1 January 2009, until 31 December 2011.

Historical TSR performance

The graph below is included in the report of the Committee as a requirement of Schedule 8 of 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 2004 to 31 December 2009.

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.

DIRECTORS' EMOLUMENTS AND INTERESTS

Directors' emoluments (audited part)

Remuneration for the year ended 31 December 2009 was as follows

	Notes	Base salary and fees £000	Allowances and benefits £000	Bonuses £000	Total 2009 ¹ £000	Total 2008 £000
Executive Directors						
George Culmer	3	550	113	598	1,261	1,112
Andy Haste	4	944	360	1,025	2,329	2,037
Simon Lee	5	423	99	487	1,009	853
Non-Executive Directors						
Noel Harwerth		57	—	—	57	50
Edward Lea		68	—	—	68	65
Malcolm Le May		60	—	—	60	58
John Maxwell		60	—	—	60	58
John Napier		400	—	—	400	325
Johanna Waterous	6	53	—	—	53	28

Notes

1 The total figure includes all allowances chargeable to UK Income Tax

2 2009 bonuses were calculated as described in the remuneration report on page 56. In 2009 a maximum cash bonus of 180% of salary was achievable

3 George Culmer received an annual performance bonus of £597,514 in respect of performance year 2009. His allowances include 15% of base salary as a retirement allowance paid monthly. During 2009 the amount paid was £82,000. He also received car benefits and additional taxable travel benefits worth £30,000 and medical benefits worth £1,000.

4 Andy Haste received an annual performance bonus of £1,025,384 in respect of performance year 2009. His allowances include an age related percentage of base salary as a retirement allowance paid monthly. During 2009 the allowance was 33% and the amount paid was £309,000. He also received car benefits and additional taxable travel benefits worth £42,000 and medical and life assurance benefits worth £9,000.

5 Simon Lee received an annual performance bonus of £487,262 in respect of performance year 2009. His allowances include 17.5% of basic salary as a retirement allowance paid monthly. During 2009 the amount paid was £74,000. He also received car benefits and additional taxable travel benefits worth £24,000 and medical benefits worth £1,000.

6 Johanna Waterous' fee for 2009 was adjusted to include an increase of £5,000 p.a. for her membership of more than one Committee backdated to 20 May 2008.

7 Termination payments were paid to Bridget McIntyre (former UK CEO) in 2009. As disclosed in the 2008 remuneration report, these payments were made in monthly instalments as approved by the Remuneration Committee in 2009. No further payments are due.

REMUNERATION REPORT CONTINUED

Pension benefits (audited part)

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 £	Total accrued pension at 31 December 2009 £	Transfer value of total accrued pension at 31 December 2009 £	Transfer value of total accrued pension at 31 December 2008 £	Difference in transfer values less member contribution ¹ £
Andy Haste	2,492	13,571	252,257	194,984	51,168

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.
- 5 For Andy Haste the increase in his accrued pension during the year, excluding the effects of inflation, was £2,035 p.a. and the transfer value in respect of this less his contributions was £31,722 at 31 December 2009.
- 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 scheme, were as follows:

	Company contribution paid in 2009 £	Company contributions paid in 2008 £
George Culmer	82,481	77,625

Simon Lee elected not to join a Group pension plan on appointment, and receives a taxable cash allowance of 17.5% of base salary instead.

Shareholdings (non audited part)

The interests of Directors in ordinary shares of 27.5p each of the Company, as declared and recorded in accordance with the FSA Listing Rules, are as follows

	Notes	Shares held at 31 December 2009	Shares held at 1 January 2009
Executive Directors			
George Culmer	12	491,829	159,296
Andy Haste	12	2,112,862	1,158,231
Simon Lee	12	584,056	348,123
Non-Executive Directors			
Noel Harwerth		10,000	10,000
Edward Lea		467,726	439,801
Malcolm Le May		17,562	16,515
John Maxwell		327,180	315,057
John Napier		560,671	560,671
Johanna Waterous		36,761	-

Notes

- 1 In addition to the interests shown above, the Directors indicated, in common with the employees, had a beneficial interest as at 31 December 2009 in 2,859,431 (2008: 3,919,975) ordinary shares of 27.5p each held in the Royal & SunAlliance ESOP Trust No 2.
- 2 The Directors had a beneficial interest as at 31 December 2009 in the voluntary Deferred Shares of 27.5p each held under the LTIP which are not included in the above table.
- 3 As at 24 February 2010 the interests in ordinary shares of the Non-Executive Directors remained unchanged. The interests of Andy Haste, George Culmer and Simon Lee under the Sharebuild plan increased to 610 shares each following monthly purchases under that plan.

Options (audited part)

Movements in option holdings during 2009 were as follows

		Options held at 1 January 2009	Options granted during the year	Options exercised during the year	Market price on date of exercise	Options cancelled during the year	Options held at 31 December 2009
George Culmer	1999 ESOS	1,994,318	0	0	-	0	1,994,318
	SHARESAVE	12,466	16,030	12,466	134.9p	0	16,030
Andy Haste	1999 ESOS	7,573,433	0	0	-	0	7,573,433
	SHARESAVE	21,949	4,488	10,643	118.7p	4,008	11,786
Simon Lee	1999 ESOS	1,355,496	0	0	-	0	1,355,496
	SHARESAVE	20,238	3,555	10,643	118.7p	0	13,150

Notes

- 1 The aggregate gain made by Directors during the year on the exercise of share options amounted to £20,175.

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.

Options granted following the AGM in May 2003 are exercisable as, at the end of the period of three business years starting with the business year in which the options were granted, the Group achieved a return on capital (ROC) of at least 6% per annum (after inflation and excluding items of an exceptional nature which in the view of the Committee do not reflect the underlying performance of the business) when averaged over the period. Options granted between September 1998 and May 2003 were also subject to a performance condition that the Group must achieve a ROC of at least 6% when averaged over a consecutive three year period. This performance condition was achieved in respect of all options granted between those dates.

REMUNERATION REPORT CONTINUED

Sharesave

Sharesave is an HM Revenue & Customs approved Save as You Earn Plan, which is operated in 17 countries. Employees make monthly savings for a period of either 3 or 5 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 the employees are invited to join Sharesave and is discounted to market value.

Outstanding options

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 in accordance with the provisions of the FSA Listing Rules.

The official closing middle market price at its highest during the year was 148 1p per share and at its lowest was 113 4p per share, on the last dealing day of the year it was 120 6p per share.

Unexpired options held during 2009 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.

Scheme		Number of options at 1 January 2009	Number of options at 31 December 2009	Exercise price (pence)	Dates exercisable from	Dates exercisable to
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	12,466	–	75.0	01.12.08	31.05.09
	SHARESAVE	–	16,030	97.0	01.12.14	31.05.15
Andy Haste	1999 ESOS	3,052,915	3,052,915	59.0	02.04.06	01.04.13
	1999 ESOS	1,298,701	1,298,701	92.4	16.10.06	15.10.13
	1999 ESOS	443,037	443,037	79.0	14.06.07	13.06.14
	SHARESAVE	10,643	–	59.0	01.12.09	31.05.10
	1999 ESOS	921,052	921,052	76.0	18.11.07	17.11.14
	1999 ESOS	1,443,750	1,443,750	80.0	08.04.08	07.04.15
	1999 ESOS	413,978	413,978	93.0	18.08.08	17.08.15
	SHARESAVE	7,298	7,298	75.0	01.12.10	31.05.11
	SHARESAVE	4,008	–	117.0	01.12.13	31.05.14
	SHARESAVE	–	4,488	97.0	01.12.14	31.05.15
Simon Lee	1999 ESOS	206,049	206,049	114.05	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	10,643	–	59.0	01.12.09	31.05.10
	SHARESAVE	7,298	7,298	75.0	01.12.10	31.05.11
	SHARESAVE	2,297	2,297	117.0	01.12.11	31.05.12
	SHARESAVE	–	3,555	97.0	01.12.12	31.05.13

Sharebuild

Sharebuild (an HM Revenue & Customs approved Share Incentive Plan) was adopted by shareholders at the 2009 AGM and launched in August 2009 with the first Partnership Shares purchased in December 2009. Sharebuild is available to all UK based employees employed at 30 June each year. In 2009 one Matching Share was allotted and held in trust for every one Partnership Share acquired with participants' contributions. The Directors' interests in Sharebuild at 31 December 2009 are below:

	Partnership Shares acquired	Matching Shares awarded	Sharebuild Shares held at 31 December 2009
George Culmer	106	106	212
Andy Haste	106	106	212
Simon Lee	106	106	212

Notes

1 As at 31 December 2009 the Sharebuild Trust held 253,352 shares

Long term incentive schemes (audited part)

Long term incentive scheme interests held during 2009 in respect of the ordinary shares of the Company are as follows:

Share Matching Plan

Notes	Share awards held at 1 January 2009	Share awards granted during the year	Share awards vested during the year	Share awards exercised during the year	Share awards lapsed during the year	Share awards held at 31 December 2009	Dates by which qualifying conditions must be fulfilled
George Culmer	128,938	—	—	—	—	128,938	met
Matching Share awards	386,814	—	—	—	—	386,814	met
Andy Haste	265,136	—	—	265,136	—	—	met
Matching Share awards	795,408	—	—	795,408	—	—	met
Simon Lee	—	—	—	—	—	—	—
Matching Share awards	—	—	—	—	—	—	—

Notes

1 The market price of ordinary shares on 8 April 2005 (the date on which the above Share Matching Plan awards were granted) was 100p

2 Matching Share awards are capable of vesting in respect of a maximum of three times the number of Deferred Shares awarded, subject to the achievement of TSR targets over a single two year period. TSR performance is measured relative to other companies specified by the Remuneration Committee. For awards granted in 2004 and 2005, TSR was measured partly relative to FTSE 100 companies and partly relative to the following financial services comparator group companies: Aegon, Legal & General Group, Allianz Group, Old Mutual, AXA, Prudential, AVIVA, RAS, Generali and Zurich Financial Services Group. For 50% of the Matching Share awards, where TSR is measured against the FTSE 100, full vesting will only occur at upper decile performance; vesting will occur in the ratio of shares under Matching Share awards to shares under Deferred Share awards of 2:1 at upper quartile performance and vesting in the ratio 1:1 will occur at median performance. For the other 50% of the Matching Share awards, where TSR is measured against the financial services comparator group, full vesting will occur if TSR is highest in the comparator group; vesting in the ratio 2:1 will occur at upper quartile performance and vesting in the ratio 1:1 will occur at median performance. Matching Share awards will not vest at below median performance. For awards granted in 2005, the targets were measured over the period from 1 April 2005 to 31 March 2007. The relevant TSR figures were averaged over the three months before the beginning and end of this performance period. Additionally, no Matching Shares vest unless the Committee is satisfied that there has been a sustained improvement in the underlying performance of the Company over the performance period.

3 The aggregate value of Share Matching Plan awards exercised during 2009 is £1,359,617.

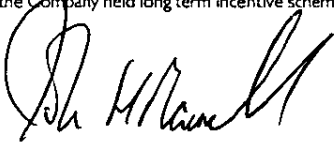
REMUNERATION REPORT CONTINUED

Long Term Incentive Plan

Notes			Share awards held at 1 January 2009	Share awards granted during the year	Share awards vested during the year '09	Share awards held at 31 December 2009	Date by which qualifying conditions must be fulfilled
George Culmer	12.5	Deferred Shares	442,484	201,986	149,098	495,372	06.04.12
	3.5	Matching Shares	1,394,817	633,859	469,036	1,559,640	06.04.12
	4.5	Performance Shares	939,453	628,657	347,347	1,220,763	06.04.12
Andy Haste	12.5	Deferred Shares	858,214	346,806	305,129	899,891	06.04.12
	3.5	Matching Shares	2,704,718	1,088,324	959,844	2,833,198	06.04.12
	4.5	Performance Shares	1,745,859	1,079,392	632,612	2,192,639	06.04.12
Simon Lee	12.5	Deferred Shares	344,373	151,451	114,422	381,402	06.04.12
	3.5	Matching Shares	1,085,622	475,272	359,952	1,200,942	06.04.12
	4.5	Performance Shares	670,695	403,289	208,471	865,513	06.04.12

Notes

- The market price of ordinary shares on 6 April 2009, the date on which long term incentive scheme interests were granted during the year was 121.2p
- Deferred Shares are inclusive of voluntary Deferred Shares and compulsory Deferred Shares. Voluntary Deferred Shares are purchased by Lloyds TSB Offshore Trust Company 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.
- 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, 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 2006, 2007 and 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. For awards granted from 2006, TSR will be measured relative to the following comparator group companies: Aegon, Allianz Group, AVIVA, AXA, Baloise, Generali, Legal & General Group, Munich Re, QBE, Swiss Re and Zurich Financial Services. 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.
- Performance conditions relating to awards of Performance Shares are the same as those relating to compulsory Deferred Shares for the relevant year as described above.
- The above table shows the date by which qualifying conditions for awards made on 6 April 2009 must be fulfilled. For awards made on 12 June 2006, all performance conditions were met in full and the awards vested in full during the year. For awards made on 16 April 2007, the date by which qualifying conditions must be fulfilled has been adjusted to 8 March 2010. For awards made on 9 April 2008, the date by which qualifying conditions must be fulfilled is 9 April 2011.
- The market price on the date of grant of awards (12 June 2006) was 125p; the market price on the date of vesting of awards (12 June 2009) was 121.80p.
- The aggregate value of share awards vested for Directors during the year under the LTIP amounted to £3,973,885. Voluntary Deferred Shares which are shown in the table above are not included in this value.
- No other Directors of the Company held long term incentive scheme interests during 2009.



John Maxwell

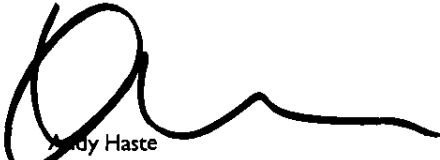
Chairman of the Remuneration Committee, on behalf of the Board
24 February 2010

RESPONSIBILITY STATEMENT

We confirm to the best of our knowledge

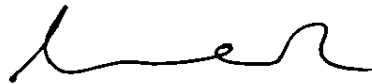
- The financial statements on pages 69 to 141, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group
- The business review on pages 6 to 29, which is incorporated into the Directors' report, includes a fair review of the development and performance of the business and the position of the Group and
- The risk framework section on pages 30 to 32, which is incorporated into the Directors' report, includes a description of the principal risks and uncertainties faced by the Group

Signed on behalf of the Board



Andy Haste
Group Chief Executive Officer

24 February 2010



George Culmer
Chief Financial Officer

24 February 2010

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF RSA INSURANCE GROUP PLC

We have audited the consolidated financial statements of RSA Insurance Group plc for the year ended 31 December 2009 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of financial position, the consolidated statement of cashflows and the related notes 1 to 34. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union. We have also audited 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 Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion of financial statements

In our opinion the consolidated financial statements

- Give a true and fair view of the state of the Group's affairs as at 31 December 2009 and of its profit for the year then ended
- Have been properly prepared in accordance with IFRS as adopted by the European Union
- Have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation

Opinion on other matters prescribed by the Companies Act 2006

In our opinion

- The part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006
- The information given in the directors' report for the financial year for which the financial statements are prepared is consistent with Group statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following

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

- The part of the directors' remuneration report described as having been audited are not in agreement with the accounting records and returns or
- Certain disclosures of directors' remuneration specified by law are not made or
- We have not received all the information and explanations we require for our audit

Under the Listing Rules we are required to review

- The directors' statement contained within the directors' report in relation to going concern
- The part of the corporate governance statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review

Other matters

We have reported separately on the Parent Company financial statements of RSA Insurance Group plc for the year ended 31 December 2009.

G Richardson

Graham Richardson (Senior Statutory Auditor)
for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditors
London, UK

24 February 2010

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2009

	Notes	2009 £m	2008 £m
Income			
Gross written premiums		7,744	7,273
Less reinsurance premiums		(1,007)	(811)
Net written premiums	1	6,737	6,462
Change in the gross provision for unearned premiums		(34)	(112)
Less change in provision for unearned premiums, reinsurers' share		50	8
Change in provision for unearned premiums		16	(104)
Net earned premiums		6,753	6,358
Net investment return	2	616	681
Other operating income	4	89	104
Total income		7,458	7,143
Expenses			
Gross claims incurred		(4,999)	(4,205)
Less claims recoveries from reinsurers		612	63
Net claims and benefits	3	(4,387)	(4,142)
Underwriting and policy acquisition costs		(2,066)	(1,925)
Unwind of discount		(100)	(92)
Other operating expenses	4	(210)	(117)
Total expenses		(6,763)	(6,276)
Results of operating activities	1	695	867
Finance costs	4	(116)	(108)
(Loss)/profit on disposal of subsidiaries	34	(7)	18
Net share of loss after tax of associates	11	(18)	(18)
Profit before tax		554	759
Income tax expense	5	(135)	(173)
Profit for the year		419	586
Attributable to			
Equity holders of the Parent Company		418	574
Minority interests		1	12
		419	586
Earnings per share on profit attributable to the ordinary shareholders of the Parent Company			
Basic	6	12.2 p	173 p
Diluted	6	12.1 p	170 p
Ordinary dividends paid and proposed for the year			
Interim dividend paid (per share)	7	2.92 p	2.73 p
Final dividend proposed (per share)	7	5.33 p	4.98 p

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2009

	Notes	2009 £m	2008 £m
Profit for the year		419	586
Exchange (losses)/gains net of tax		(108)	326
Fair value gains/(losses) net of tax	23	184	(193)
Pension fund actuarial (losses)/gains net of tax	23	(691)	204
Other comprehensive (expense)/income for the year		(615)	337
Total comprehensive (expense)/income for the year		(196)	923
Attributable to			
Equity holders of the Parent Company		(193)	901
Minority interests		(3)	22
		(196)	923

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2009

	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 funds £m	Minority interests £m	Total equity £m
Balance at 1 January 2008	895	943	(38)	125	422	8	47	675	3,077	67	3,144
Total comprehensive (expense)/ income for the year	—	—	—	—	(195)	—	317	779	901	22	923
Dividends – paid (note 7)	—	—	—	—	—	—	—	(246)	(246)	(8)	(254)
Issued by scrip	14	51	—	—	—	—	—	—	65	—	65
Issued for cash (note 18)	6	13	—	—	—	—	—	—	19	—	19
Treasury shares utilised	—	—	28	—	—	—	—	(28)	—	—	—
Changes in shareholders' interests in subsidiaries	—	—	—	—	(2)	—	—	—	(2)	—	(2)
Depreciation transfer	—	—	—	—	(1)	—	—	1	—	—	—
Share based payments	—	—	—	—	—	—	—	25	25	—	25
Balance at 31 December 2008	915	1,007	(10)	125	224	8	364	1,206	3,839	81	3,920
Total comprehensive income/ (expense) for the year	—	—	—	—	153	—	(105)	(241)	(193)	(3)	(196)
Dividends – paid (note 7)	—	—	—	—	—	—	—	(273)	(273)	(3)	(276)
Issued by scrip	18	60	—	—	—	—	—	—	78	—	78
Issued for cash (note 18)	4	7	—	—	—	—	—	—	11	—	11
Treasury shares utilised	—	—	7	—	—	—	—	(7)	—	—	—
Changes in shareholders' interests in subsidiaries	—	—	—	—	—	—	—	—	—	22	22
Share based payments	4	—	—	—	—	—	—	25	29	—	29
Balance at 31 December 2009	941	1,074	(3)	125	377	8	259	710	3,491	97	3,588

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 31 December 2009

	Notes	2009 £m	2008 £m
Assets			
Goodwill and other intangible assets	8	969	744
Property and equipment	9	284	309
Investment property	10	391	365
Investments in associates	11	31	123
Financial assets	12	12,900	12,748
Total investments		13,322	13,236
Reinsurers' share of insurance contract liabilities	13	1,795	1,759
Insurance and reinsurance debtors	14	2,812	2,890
Deferred acquisition costs	15	674	653
Current tax assets	23	28	40
Deferred tax assets	23	208	142
Other debtors and other assets	16	752	1,477
		988	1,659
Cash and cash equivalents	17	996	1,614
		21,840	22,864
Assets held for sale	34	201	3
Total assets		22,041	22,867
Equity, reserves and liabilities			
Equity and reserves			
Shareholders' equity		3,491	3,839
Minority interests		97	81
Total equity and reserves		3,588	3,920
Liabilities			
Loan capital	19	1,317	1,311
Insurance contract liabilities	20	14,451	15,055
Insurance and reinsurance liabilities	21	493	545
Borrowings	22	295	300
Current tax liabilities	23	198	215
Deferred tax liabilities	23	57	238
Provisions	24	542	240
Other liabilities	25	937	1,043
Provisions and other liabilities		1,734	1,736
		18,290	18,947
Liabilities held for sale	34	163	–
Total liabilities		18,453	18,947
Total equity, reserves and liabilities		22,041	22,867

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

The financial statements were approved on 24 February 2010 by the Board of Directors and are signed on its behalf by:

George Culmer
Chief Financial Officer



CONSOLIDATED STATEMENT OF CASHFLOWS for the year ended 31 December 2009

	Notes	2009 £m	2008 £m
Cashflows from operations	31	(1)	137
Tax paid		(180)	(101)
Investment income		617	632
Interest paid		(96)	(107)
Dividends received from associates		1	3
Pension asset reallocation funding		(40)	(37)
Net cashflows from operating activities		301	527
Proceeds from sales or maturities of			
Investment contracts		4,031	5,184
Investment property		–	3
Property and equipment		7	20
Investments in subsidiaries (net of cash disposed of)		–	78
Purchase of			
Investment contracts		(4,388)	(5,528)
Investment property		(10)	(10)
Property and equipment		(37)	(64)
Intangible assets		(98)	(72)
Investments in subsidiaries (net of cash acquired)	30	(100)	(25)
Investments in associates		–	(32)
Net cashflows from investing activities		(595)	(446)
Proceeds from issue of share capital		11	19
Dividends paid to ordinary shareholders		(186)	(172)
Dividends paid to preference shareholders		(9)	(9)
Dividends paid to minority interests		(3)	(8)
Net movement in long term borrowings		27	–
Net movement in other borrowings		(6)	(2)
Net cashflows from financing activities		(166)	(172)
Net decrease in cash and cash equivalents		(460)	(91)
Cash and cash equivalents at beginning of the year		1,614	1,538
Effect of exchange rate changes on cash and cash equivalents		(49)	167
Cash and cash equivalents at end of the year	17	1,105	1,614

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

SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below

Consolidated financial statements

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The consolidated financial statements are prepared under the historical cost convention as modified by the revaluation of available for sale financial assets, investment property, Group occupied property and financial assets and financial liabilities held for trading (which include all derivative contracts).

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

Changes in presentation and comparative information

The Group has adopted the revised version of IAS 1 (2007) 'Presentation of Financial Statements', which is mandatory for accounting periods beginning on or after 1 January 2009. The revised standard changes certain aspects of the presentation of financial statements and its effects are as follows:

- To introduce a new primary statement, the statement of changes in equity, which was previously a note to the accounts
- To rename the primary statements
- To introduce a new disclosure, of the amount of income tax relating to each component of other comprehensive income

Comparative information has been provided for these disclosures.

The Group has also adopted the amendment to IFRS 7 'Financial Instruments: Disclosures', which is mandatory for accounting periods beginning on or after 1 January 2009. The effect of the amendment is to introduce new disclosures in respect of financial instruments recognised at fair value in the statement of financial position, namely an analysis of such instruments based on a three level measurement hierarchy and disclosures regarding those instruments which have significant unobservable inputs (classified as Level 3).

The above changes have no impact on the result or the earnings per share for the current period, the comparative period or earlier periods, or the Group's financial position at the end of each such period.

Selection of accounting policies

The Group exercises judgement in selecting each Group accounting policy. The accounting policies of the Group are selected by the directors to present financial statements that they consider provide the most relevant information. For certain accounting policies there are different accounting treatments that could be adopted, each of which would be in compliance with IFRS and would have a significant influence upon the basis on which the financial statements are presented. The bases of selection of the accounting policies for the accounting for

financial assets and for the recognition of actuarial gains and losses related to pension obligations are set out below.

- The Group designates financial assets that are held as investments on the basis on which the investment return is managed and the performance is evaluated internally. Where the investment return is managed on the basis of the periodic cashflows arising from the investment, a financial asset is designated as an available for sale financial asset with unrealised gains recognised in the statement of comprehensive income. Where the investment return is managed on the basis of the total return on the investment (including unrealised investment gains), the financial asset is designated as at fair value through the income statement.
- The Group accounting policy is to recognise actuarial gains and losses arising from the recognition and funding of the Group's pension obligations in the statement of comprehensive income during the period in which they arise. This policy has been adopted as it provides the most relevant basis of recognition of such gains and losses.

Consolidation

Subsidiaries

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, including costs directly attributable to the acquisition. Identifiable intangible assets acquired and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Changes in the ownership interests of a subsidiary between shareholders of the Group and minority shareholders are accounted for as transactions between equity holders of the Group. Any difference between the fair value of the consideration given by the transferee and the carrying value of the ownership interest transferred is recognised directly in equity.

SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries are changed where necessary to ensure consistency with the policies adopted by the Group.

Associates

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost.

The Group's shares of its associates' post acquisition profits or losses are recognised in the income statement and its share of post acquisition movements in reserves is recognised in the statement of comprehensive income. The cumulative post acquisition movements are adjusted in the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Adjustments are made, where necessary, to the accounting policies of associates to ensure consistency with the policies adopted by the Group.

Translation of foreign currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

The results and financial position of those Group entities whose functional currency is not Sterling are translated into Sterling as follows:

- Assets and liabilities for each statement of financial position presented are translated at closing exchange rates at the end of the period.
- Income and expenses for each income statement are translated at average exchange rates during each period.
- All resulting exchange differences are recognised as a component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to equity. When a foreign entity is sold, the cumulative exchange differences relating to that foreign entity are recognised in the income statement as part of the gain or loss on sale.

Goodwill arising on the acquisition of a foreign entity is treated as an asset of the foreign entity and the carrying value is translated at the closing exchange rate.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Goodwill and other intangible assets

Goodwill, being the difference between the cost of a business acquisition and the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired, is initially capitalised in the statement of financial position at cost and is subsequently recognised at cost less accumulated impairment losses. The cost of the acquisition is the amount of cash paid and the fair value of other purchase consideration given together with associated expenses. Goodwill is allocated to cash generating units for the purpose of impairment testing. Goodwill is subject to an impairment review at least annually. An impairment review is also carried out whenever there is an indication that goodwill or other intangible assets are impaired. Where the carrying amount is more than the recoverable amount, an impairment is recognised in the income statement.

When calculating the goodwill arising on an acquisition, claims provisions are discounted to present value. Immediately following the acquisition, the claims provisions are valued at full nominal value. This increase in liabilities is matched by the recognition of an intangible asset arising from acquired claims provisions, representing the present value of future investment income implicit in the claims discount. The intangible asset is amortised over the expected run off period and is tested in the context of the liability adequacy test of insurance liabilities where the balances of intangible assets associated with insurance contracts is deducted from the carrying amount of the insurance liabilities. The run off period is normally between five and 11 years.

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

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

Computer software and other intangible assets are carried at cost less accumulated amortisation. Amortisation on computer software and other intangible assets is calculated using the straight line method to allocate the cost over their estimated useful lives, which is normally estimated to be between three and 12 years.

Property and equipment

Property and equipment comprise Group occupied land and buildings, fixtures, fittings and equipment (including computer hardware and motor vehicles). These assets are depreciated over their estimated useful life after taking into account residual values.

Group occupied property is stated at fair value, less subsequent depreciation for buildings. All other assets are stated at depreciated cost. Fair value movements are recorded in equity.

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

All other classes are stated at cost less accumulated depreciation. Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset only when it is probable that future economic benefits associated to the item will flow to the Group and the cost can be measured reliably.

Land is not depreciated. Depreciation on all other items is calculated on the straight line method to write down the cost of such assets to their residual value over their estimated useful lives as follows:

Group occupied buildings	normally 30 years
Fixtures and fittings	10 years
Motor vehicles	4 years
Equipment	3-5 years

The assets' residual values and useful lives are reviewed and adjusted if appropriate.

An impairment review is carried out whenever there is an indication that the assets are impaired. An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Increases in the carrying amount arising on the revaluation of Group occupied property are credited to revaluation reserves in equity. Decreases that offset the previous increases of the same asset are charged against revaluation surplus directly in equity; other decreases are charged to the income statement. Each year the difference between depreciation based on the fair value of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from revaluation surplus to retained earnings.

Investment property

Investment property, comprising freehold and leasehold land and buildings, is held for long term rental yields and is not occupied by the Group.

Investment property is recorded at fair value, measured by independent professionally qualified valuers, who hold a recognised and relevant

professional qualification and have recent experience in the location and category of the investment property being valued. Valuations are carried out on an annual basis or more frequently and by internal valuers for interim periods, with reference to current market conditions. Related unrealised gains and unrealised losses or changes thereof are recognised in net investment return.

Financial assets

A financial asset is initially recognised, on the date the Group commits to purchase the asset, at fair value plus, in the case of all financial assets not classified as at fair value through the income statement, transaction costs that are directly attributable to its acquisition. A financial asset is derecognised when the rights to receive cashflows from the investment have expired or have been transferred and when the Group has substantially transferred the risks and rewards of ownership of the asset.

On initial recognition, the financial assets may be categorised into the following categories: financial assets at fair value through the income statement, loans and receivables, held to maturity financial assets and available for sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

The Group designates investments in equity and debt securities in accordance with its investment strategy on the basis on which the investment return is managed and the performance is evaluated internally. Where the investment return is managed on the basis of the periodic cashflows arising from the investment, a financial asset is designated as an available for sale financial asset. Where the investment return is managed on the basis of the total return on the investment (including unrealised investment gains), the financial asset is designated as at fair value through the income statement. Other investments comprising loans, reinsurance deposits and other deposits are classified as loans and receivables.

Financial assets arising from non investment activities are not classified on initial recognition as available for sale assets and are therefore categorised as loans and receivables.

Where the cumulative changes recognised in equity represent an unrealised loss the individual asset or group of assets is reviewed to test whether an indication of impairment exists.

For securities whose fair values are readily determined and where there is objective evidence that such an asset is impaired, including for equity investments a significant or prolonged decline in the fair value below cost, the unrealised loss charged to equity is reclassified to the income statement.

If the fair value of a previously impaired debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed and the reversal recognised in the income statement. Impairment losses on equity investments are not reversed.

SIGNIFICANT ACCOUNTING POLICIES CONTINUED

For other loans and receivables, where there is evidence that the contracted cashflows will not be received in full, an impairment charge is recognised in the income statement to reduce the carrying value of the financial asset to its recoverable amount

Investment income is recognised in the income statement. Dividends on equity investments are recognised on the date at which the investment is priced 'ex dividend'. Interest income is recognised using the effective interest method. Unrealised gains and losses on available for sale investments are recognised directly in equity, except for impairment losses and foreign exchange gains and losses on monetary items (which are recognised in the income statement). On derecognition of an investment classified as available for sale, the cumulative gain or loss previously recognised in equity is recognised in the income statement.

Derivative financial instruments

Derivatives are recognised in the statement of financial position on a trade date basis and are carried at fair value. Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and the nature of the item being hedged. Where a derivative is not designated as a hedging instrument, changes in its fair value are recognised in the income statement.

Hedging

Transactions are classified as hedging transactions when the following conditions for hedge accounting are met

- There is a formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge
- The hedge is expected to be highly effective in achieving offsetting changes in fair value or cashflows attributable to the hedged risk, consistent with the originally documented risk management strategy for that particular hedging relationship
- The effectiveness of the hedge can be reliably measured
- For cashflow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cashflows that could ultimately affect profit or loss
- The hedge is assessed on an ongoing basis and determined to have been highly effective

Where loan capital or a forward foreign exchange contract is designated as a hedging instrument against the net investment in foreign entities, the effective portion of the hedge is recognised in equity; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are included in the income statement when the underlying hedged item is derecognised

Estimation of the fair value of financial assets and liabilities

The methods and assumptions used by the Group in estimating the fair value of financial assets and liabilities are

- For fixed maturity securities, fair values are generally based upon quoted market prices. Where market prices are not readily available, fair values are estimated using either values obtained from quoted market prices of comparable securities or estimated by discounting expected future cashflows using a current market rate applicable to the yield, credit quality and maturity of the investment
- For equity securities fair values are based upon quoted market prices
- If the market for a financial asset is not active, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cashflow analysis and option pricing models
- For mortgage loans on real estate and collateral loans, fair values are estimated using discounted cashflow calculations based upon prevailing market rates
- For cash loans and receivables, commercial paper, other assets, liabilities and accruals, carrying amounts approximate to fair values
- For notes, bonds, loans payable and loan capital, fair values are determined by reference to quoted market prices or estimated using discounted cashflow calculations based upon prevailing market rates. Loan capital is carried at amortised cost and, when different, fair value is shown in the relevant note. For borrowings that carry a variable rate of interest (other than loan capital), carrying values approximate to fair values
- For derivatives, fair values are generally based upon quoted market prices

For disclosure purposes, fair value measurements are classified as Level 1, 2 or 3 based on the degree to which fair value is observable

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs)

Insurance contracts

Product classification

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

Recognition of income

Premiums written are accounted for in the period in which the contract is entered into and include estimates where the amounts are not determined at the end of the reporting period. Premiums written exclude taxes and duties levied on premiums and directly related expenses, e.g. commissions. Premiums are earned as revenue over the period of the contract and are calculated principally on a daily pro rata basis.

Acquisition costs

Acquisition costs comprise the direct and indirect costs of obtaining and processing new insurance business. These costs are recognised as a deferred acquisition cost asset and amortised on the same basis as the related premiums are earned.

Insurance liabilities

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

The provisions for claims outstanding, whether reported or not, comprise the estimated cost of claims incurred but not settled at the end of the reporting period. It includes related expenses and a deduction for the expected value of salvage and other recoveries. The provision is determined using the best information available of claims settlement patterns, forecast inflation and settlement of claims. The provisions for claims outstanding relating to long term permanent disability claims in Canada and Scandinavia are also determined using recognised actuarial methods.

The provisions for claims outstanding, and related reinsurance recoveries, are discounted where there is a particularly long period from incident to claims settlement and where there exists a suitable claims payment pattern from which to calculate the discount. In defining those claims with a long period from incident to claims settlement, those categories of claims where the average period of settlement is six years or more from the end of the reporting period has been used as a guide. The discount rate used is based upon an investment return expected to be earned by assets, which are appropriate in magnitude and nature to cover the provisions for claims outstanding being discounted, during the period necessary for the payment of such claims.

Differences between the estimated cost and subsequent settlement of claims are recognised in the income statement in the year in which they are settled or in which the provisions for claims outstanding are re-estimated.

At the end of each reporting period an assessment is made of whether the provisions for unearned premiums are adequate. A separate provision is made, based on information available at the end of the reporting period, for any estimated future underwriting losses relating to unexpired risks. The provision is calculated after taking into account future investment income that is expected to be earned from the assets backing the provisions for unearned premiums

(net of deferred acquisition costs). The unexpired risk provision is assessed in aggregate for business classes which, in the opinion of the directors, are managed together.

Reinsurance ceded

Premiums payable in respect of reinsurance ceded are recognised in the period in which the reinsurance contract is entered into and include estimates where the amounts are not determined at the end of the reporting period. Premiums are expensed over the period of the reinsurance contract, calculated principally on a daily pro rata basis.

A reinsurance asset (reinsurers' share of insurance liabilities) is recognised to reflect the amount estimated to be recoverable under the reinsurance contracts in respect of the outstanding claims reported under insurance liabilities. The amount recoverable from reinsurers is initially valued on the same basis as the underlying claims provision. The amount recoverable is reduced when there is an event arising after the initial recognition that provides objective evidence that the Group may not receive all amounts due under the contract and the event has a reliably measurable impact on the expected amount that will be recovered from the reinsurer.

The reinsurers' share of each unexpired risk provision is recognised on the same basis.

Annuities purchased by the Group to make payments under structured settlement arrangements are accounted for as reinsurance ceded if the Group remains liable for the settlement in the event of default by the annuity provider. Any gain or loss arising on the purchase of an annuity is recognised in the income statement at the date of purchase.

Cash and cash equivalents

Cash and cash equivalents are short term, highly liquid investments that are subject to insignificant changes in value and are readily convertible into known amounts of cash. Cash equivalents comprise financial assets with less than three months' maturity from the date of acquisition.

Treasury shares

Treasury shares are deducted from equity. No gain or loss is recognised on the purchase, sale, issue or cancellation of the treasury shares. Any consideration paid or received is recognised directly in equity.

Loan capital

Loan capital comprises subordinated bonds which are initially measured at the consideration received less transaction costs. Subsequently, loan capital is measured at amortised cost using the effective interest rate method.

An exchange with an existing lender of loan capital with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cashflows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at

SIGNIFICANT ACCOUNTING POLICIES CONTINUED

least 10% different from the discounted present value of the remaining cashflows of the original financial liability. An exchange where the terms are not substantially different is accounted for as an exchange.

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

Taxation

Taxation in the income statement is based on profits and income for the year as determined in accordance with the relevant tax legislation, together with adjustments to provisions for prior years. UK tax in respect of overseas subsidiaries and principal associated undertakings is recognised as an expense in the year in which the profits arise, except where the remittance of earnings can be controlled and it is probable that remittance will not take place in the foreseeable future, in which case UK tax is based on dividends received.

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

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

Employee benefits

Pension obligations

Group companies operate various pension schemes. The schemes are generally funded through payments to trustee administered funds, determined by periodic actuarial calculations. The Group has both defined contribution and defined benefit schemes. A defined contribution scheme is a pension scheme under which the Group pays fixed contributions into a separate entity. A defined benefit scheme is a pension scheme that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary.

Post retirement benefits (including pension schemes and post retirement health schemes)

Contributions to defined contribution pension schemes are charged in the income statement in the period in which the employment

services qualifying for the benefit are provided. The Group has no further payment obligations once the contributions have been paid.

The amounts charged (or credited where relevant) in the income statement relating to post retirement benefits in respect of defined benefit schemes are as follows:

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

The current service cost in respect of defined benefit schemes comprises the present value of the additional benefits attributable to employees' services provided during the period.

The present value of defined benefit obligations and the present value of additional benefits accruing during the period are calculated using the Projected Unit Credit Method.

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

The calculation of the present value of accrued benefits includes an actuarial assumption of future interest rates, which is used to discount the expected ultimate cost of providing the benefits. The discount rate is determined at the end of each reporting period by reference to current market yields on high quality corporate bonds identified to match the currency and estimated term of the obligations. The interest cost for the period is calculated by multiplying the discount rate determined at the start of the period by the defined benefit obligations during the period.

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

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

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

Actuarial gains and losses arise from changes to actuarial assumptions when revaluing future benefits and from actual experience in respect

of scheme liabilities and investment performance of scheme assets being different from previous assumptions. Actuarial gains and losses are recognised in the statement of comprehensive income.

The value recognised in the statement of financial position for each individual post retirement scheme is calculated as follows:

- The present value of defined benefit obligation of the scheme at the end of the reporting period
- Minus any past service cost not yet recognised
- Minus the fair value at the end of the reporting period of the scheme assets out of which the obligations are to be settled directly

For those individual schemes in deficit, the resulting net liabilities are recognised in the statement of financial position in provisions. For those individual schemes in surplus, an asset is recognised in the statement of financial position in other debtors and other assets to the extent that the Group can realise an economic benefit, in the form of a refund or a reduction in future contributions, at some point during the life of the scheme or when the scheme liabilities are settled.

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

Share based payments

The value of the employee share options and other equity settled share based payments is calculated at fair value at the grant date using appropriate and recognised option pricing models. The value of liabilities in respect of cash settled share based payment transactions is based upon the fair value of the awards at the end of the reporting period.

Vesting conditions, which comprise service conditions and performance conditions other than those based upon market conditions, are not taken into account when estimating the fair value of such awards but are taken into account by adjusting the number of equity instruments included in the ultimate measurement of the transaction amount. The value of the awards is recognised as an expense on a systematic basis over the period during which the employment services are provided. Where an award of options is cancelled by an employee, the full value of the award (less any value previously recognised) is recognised at the cancellation date.

The proceeds received net of any transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Dividends to equity holders

The final dividend is recognised as a liability when approved at the Annual General Meeting. The interim dividend is recognised when paid.

Leases

Rental income from operating leases is recognised on a straight line basis over the term of the lease. Payments made under operating leases are charged on a straight line basis over the term of the lease.

Operating segments

Operating segments are identified on the basis of the regional structure of the Group. Internal reports about these segments are regularly reviewed by the Group Chief Executive Officer and by the Board of Directors to assess their performance and to allocate capital and resources.

Assets and liabilities held for sale and discontinued operations

Assets are classified as held for sale if their carrying amount is to be recovered principally through a sale transaction, that is highly probable to complete within one year from the date of classification, rather than through continuing use. Such assets are measured at the lower of carrying amount and fair value less costs to sell and are classified separately from other assets in the statement of financial position. Assets and liabilities of a disposal group are not netted. In the period where a non current asset or disposal group is recognised for the first time the statement of financial position for the comparative prior period presented is not restated.

Discontinued operations are presented on the face of the income statement as a single amount comprising the total of the net profit or loss of discontinued operations and the after tax gain or loss recognised on the sale or the measurement to fair value less costs to sell of the net assets constituting the discontinued operations. In the period where an operation is presented for the first time as discontinued, the income statement for the comparative prior period presented is restated to present that operation as discontinued.

SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Unless otherwise stated, in the period where an operation is presented as discontinued, the notes to the financial statements contain amounts attributable to continuing operations only. The comparatives for the notes to the income statement are restated.

Current and non current distinction

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

The Group's statement of financial position is not presented using current and non current classifications. However, the following balances are generally classified as current: cash and cash equivalents, deferred acquisition costs and insurance and reinsurance debtors.

The following balances are generally classified as non current: goodwill and other intangible assets, property and equipment, investment property, investment in associates, financial assets, deferred tax assets, loan capital, and deferred tax liabilities.

The remaining balances are of a mixed nature. The current and non current portions of such balances are set out in the respective notes or in the risk management section.

Recently issued accounting pronouncements

Pronouncements issued by the International Accounting Standards Board (IASB) but which are not yet mandatory for adoption in the Group financial statements are listed below.

On 10 January 2008 the IASB issued a revised version of IFRS 3 'Business Combinations' and an amended version of IAS 27 'Consolidated and Separate Financial Statements'. The revisions include the following changes to existing accounting practice:

- An equity interest in a subsidiary entity that is not held by the reporting and controlling entity is now described as a non controlling interest (currently described as a minority interest).
- The relevant proportion of total comprehensive income is attributed to a non controlling interest even if this results in the non controlling interest having a deficit balance.
- In a business combination, the acquiring company must measure the non controlling interest at either fair value or as the non controlling interest's proportionate share of the identifiable net assets. Currently only the second basis is permitted.
- Costs incurred by the acquirer in connection with a business combination must be accounted for separately from the business combination. This will result in such costs being expensed and not being included in goodwill.

- All consideration (including contingent consideration) transferred in a business combination is measured at fair value at the acquisition date. Changes in the value of contingent consideration are measured in accordance with the relevant accounting treatment under IFRS.
- Pre-existing equity interests in an acquiree are remeasured to fair value at the date of, and immediately before, the business combination and any resulting gain or loss is recognised in the income statement.

The Group will adopt the revised standards from 1 January 2010. They will be applied prospectively and so they will have no impact on the results and the earnings per share of the current period, the comparative period or earlier periods, and on the Group's financial position at the end of each such period. It is not possible to assess the impact the changes will have on future periods.

On 12 November 2009 the IASB issued IFRS 9 'Financial Instruments'. This standard represents the completion of the first part of a three-part project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. The new standard reduces the complexity by replacing the many different rules in IAS 39. The key features for the new standard are as follows:

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

It is expected that the IASB will issue the new standard covering the remaining two parts of the project, together with a revised standard on the recognition and measurement of financial liabilities, during 2010.

The new standard comes into effect for the annual periods beginning on or after 1 January 2013, but early adoption is permitted. The new standard has not yet been adopted by the EU. The new standard relies on the Group business model objective and may also be influenced by the basis of the measurement of the Group's insurance liabilities at the time that the new standard is adopted. The latter may change prior to adoption of IFRS 9 and so it is not possible to determine the overall impact on the results and the earnings per share of the current period, the comparative period or earlier periods, and on the Group's financial position at the end of each such period. It is not possible to assess the impact the changes will have on future periods as in addition to the factors above, these will be impacted by future market conditions and management actions.

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

- Improvements to IFRS (issued 22 May 2008)
- Amendment to IAS 39 'Financial Instruments: Recognition and Measurement: Eligible Hedged Items' (issued 31 July 2008)
- Interpretation IFRIC 17 'Distributions of Non cash Assets to Owners' (issued 27 November 2008)
- Revised IFRS 1 'First Time Adoption of IFRS' (issued 27 November 2008)
- Improvements to IFRS (issued 16 April 2009)
- Amendments to IFRS 2 'Group Cash Settled Share Based Payment Transactions' (issued 18 June 2009)
- Amendments to IFRS 1 'Additional Exemptions for First Time Adopters' (issued 23 July 2009)
- Amendment to IAS 32 'Financial Instruments: Presentation – Classification of Rights Issues' (issued 8 October 2009)
- Revised IAS 24 'Related Party Disclosures' (issued 4 November 2009)
- Amendment to IFRIC 14 'Prepayments of a Minimum Funding Requirement' (issued 26 November 2009)
- Interpretation IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments' (issued 26 November 2009)
- Amendments to IFRS 1 'Limited Exemption from Comparative IFRS 7 Disclosures for First Time Adopters' (issued 28 January 2010)

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 liabilities of the company.

The insurance liabilities of an insurance company include the provision for unearned premiums and unexpired risks and the provision for outstanding claims. 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 and political 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 claims provisions 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 outstanding claims and unexpired periods of risk.

It should be emphasised that the estimation techniques for the determination of insurance 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 and
- 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 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 claims provision 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 make it 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 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 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 claims provisions 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 we 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 and
- For US liabilities from our London market business, developments in the tactics of US plaintiff lawyers and court decisions and awards.

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 us 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

ESTIMATION TECHNIQUES, RISKS, UNCERTAINTIES AND CONTINGENCIES CONTINUED

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 we do business our strategy is to seek reinsurers with the best combination of financial strength, price and capacity. We publish internally a list of authorised reinsurers who pass our selection process and which our 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 currency 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 interest rates, 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.

Our insurance investment portfolios are concentrated in listed securities with very low levels of exposure to assets without quoted market prices. We use model based analysis to verify asset values when market values are not readily available.

Rating environment

The ability of the Group to write certain types of insurance business is dependent on the maintenance of the appropriate credit ratings from the rating agencies. The Group has the objective of maintaining single 'A' ratings. At the present time the ratings are 'A' (stable outlook) from S&P, 'A' (stable outlook) from AM Best upgraded in February 2009 and 'A2' (stable outlook) from Moody's upgraded from 'A3' in December 2008. Any 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.

Changes in foreign exchange rates may impact our results

We publish our consolidated financial statements in Pounds Sterling. Therefore fluctuations in exchange rates used to translate other currencies, particularly other European currencies and the US Dollar into Pounds Sterling will impact our reported consolidated financial condition, results of operations and cashflows from period to period. These fluctuations in exchange rates will also impact the Pound Sterling value of our investments and the return on our 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 we operate, including developments in response to changes in the economic and political environment and the recent financial crisis. We continue 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 our 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.

RISK MANAGEMENT

As an insurance company, the Group is fundamentally concerned with the management of risks. This note summarises the key risks to the Group and the steps taken to manage them.

As set out in the corporate governance report, the Group's Board of Directors (the 'Board') defines the risk appetite of the organisation.

The Group employs a comprehensive risk management framework to identify, assess, manage and monitor the risks arising as a result of operating the business. The framework includes a comprehensive suite of risk policies, procedures, measurement, reporting and monitoring techniques and a series of stress tests and scenario analyses to ensure that the Group's risk exposures are managed appropriately.

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

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

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

Insurance risk

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

Property and casualty insurance risks

The Group manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling. The underwriting strategy aims to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and geography.

Pricing for property and casualty products is generally based upon historical claims frequencies and claims severity averages, adjusted for inflation and trended forward to recognise anticipated changes in claims patterns. While claims remain the Group's principal cost, the Group also makes allowance in the pricing procedures for acquisition expenses, administration expenses, investment income, the cost of reinsurance and for a profit loading that adequately covers the cost of the capital the Group exposes to risk.

Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the Group has the right not to renew individual policies, it can impose deductibles and it has the right to reject the payment of a fraudulent claim. In certain territories, legislation imposes a minimum amount for which employers can be liable for claims for compensation from employees injured at work. These liabilities are usually insured under an employer's liability (or similar) insurance policy. All policies issued by the Group comply with minimum statutory requirements.

All of the Group's underwriters have specific licences that set clear parameters for the business they can underwrite, based on the experience of the individual underwriter. Additionally the Group has a centrally managed forum looking at Group underwriting issues, reviewing and agreeing underwriting direction and setting policy and directives where appropriate. The Group has a quarterly portfolio management process across all its business units, which provides a consistent assessment of each portfolio performance against a set of key performance indicators. Under the portfolio management system, key risk indicators are tracked to monitor emerging trends, opportunities and risks and, on an annual basis, a review forum of business and underwriting leaders undertakes a detailed review of each portfolio utilising data from the quarterly reviews.

Reinsurance arrangements in place include excess, stop loss and catastrophe coverage. The effect of such reinsurance arrangements is that the Group should not suffer total net insurance losses beyond the Group's risk appetite in any one year.

Reserves – an overview

The Group establishes property and casualty loss reserves to account for the anticipated ultimate costs of all losses and related loss adjustment expenses (LAE) on losses that have already occurred. The Group establishes reserves for reported losses and LAE, as well as for incurred but not yet reported (IBNR) losses and unallocated loss adjustment expenses (ULAE). Loss reserve estimates are based on known facts and on interpretation of circumstances including the Group's experience with similar cases and historical claims payment trends. The Group also considers the development of loss payment trends, levels of unpaid claims, judicial decisions and economic conditions.

RISK MANAGEMENT CONTINUED

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

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

- The Group's actuaries provide an indication of ultimate losses together with an assessment of risks and possible favourable or adverse developments that may not have been fully considered in calculating these indications. At the end of 2009 these risks and developments include the possibility of future legislative change having retrospective effect on open claims, changes in claims settlement procedures potentially leading to future claims payment patterns differing from historical experience, the possibility of new types of claim, such as disease claims, emerging from business written several years ago, general uncertainty in the claims environment, the emergence of latent exposures such as asbestos, the outcome of litigation on claims received, failure to recover reinsurance and unanticipated changes in claims inflation.
- Consideration is also made of the views of internal peer reviewers of the reserves and of third parties including actuaries, legal counsel, risk directors, underwriters and claims managers.
- Consideration is made of how previous actuarial indications have developed.

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

Emerging and legal risks

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

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

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

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

Reinsurance risk

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

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

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

All of the Group's operations are required to purchase reinsurance within agreed local reinsurance appetite parameters. The Group Corporate Centre reviews the operations' proposed catastrophe purchases to check that they at least meet the Group's '1 in 200 year' standard. Group Corporate Centre also checks to see that total Group exposures are within the limits set out above and also are consistent with the required risk based capital. As a result the Group may decide to purchase further catastrophe coverage at the Group level.

In addition to local reinsurance arrangements, the Group reinsures a portion of the risks underwritten to control exposure to losses, to reduce volatility and protect capital. The Group's reinsurance strategy is to purchase reinsurance in the most effective manner from reinsurers who meet its security standards.

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

The Group remains primarily liable as the direct insurer on all risks reinsured, although the reinsurer is liable to the Group to the extent of the insurance risk ceded.

Operational risk

Operational risk is the risk of direct or indirect losses resulting from human factors, external events and inadequate or failed internal processes and systems. Operational risks are inherent in the Group's operations and are typical of any large enterprise. Major sources of operational risk include operational process reliability, information security, outsourcing of operations, dependence on key suppliers, implementation of strategic change, integration of acquisitions, fraud, human error, customer service quality, inadequacy of business continuity arrangements, recruitment, training and retention of staff, and social and environmental impacts.

The Group manages operational risk using a range of techniques and tools to identify, monitor and mitigate its operational risk in accordance with Group's risk appetite. These tools include Risk and Control Self Assessments, Key Risk Indicators (e.g. fraud and service indicators), Scenario Analyses and Loss Reporting. In addition the Group has developed a number of contingency plans including Incident Management and Business Continuity Plans. Quantitative analysis of operational risk exposures material to the Group is used to inform decisions on the overall amount of capital held and the adequacy of contingency arrangements.

Credit risk

Credit risk is the risk of loss of value of the financial assets due to counterparties failing to meet all or part of their obligations. The Board Risk Committee (BRC) is responsible for ensuring that the Board approved Group credit risk appetite is not exceeded, through the setting and imposition of Group policies, procedures and limits. In defining its risk appetite for credit risk the Group looks at exposures at both an aggregate and business unit level distinguishing between credit risks incurred as a result of offsetting insurance risks or operating in the insurance market (e.g. reinsurance credit risks and insurance operations credit risks) and credit risks incurred for the purposes of generating a return (e.g. invested assets credit risk).

Limits are set at both a portfolio and counterparty level based on likelihood of default, derived from the rating of the counterparty, to ensure that the Group's overall credit profile and specific concentrations are managed and controlled within risk appetite. Financial assets are graded according to current credit ratings issued. AAA is the highest possible rating. Investment grade financial assets are classified within the range of AAA to BBB ratings. For invested assets, restrictions are placed on each of the Group's investment managers as to the level of exposure to not rated securities.

RISK MANAGEMENT CONTINUED

The following table provides information regarding the aggregated credit risk exposure for financial assets of the Group as at 31 December 2009

	Credit rating relating to financial assets that are neither past due nor impaired						Total of financial assets that are neither past due nor impaired
	AAA	AA	A	BBB	<BBB	Not rated	
	£m	£m	£m	£m	£m	£m	£m
Debt securities	7,212	1,856	1,819	381	83	141	11,492
Loans and receivables and short term investments	—	—	60	1	2	77	140
Reinsurers' share of insurance contract liabilities	108	325	861	145	68	271	1,778
Insurance and reinsurance debtors ¹	41	21	50	89	9	2,338	2,548
Derivative assets	—	—	22	—	—	—	22
Other debtors	—	—	—	—	—	285	285
Cash and cash equivalents	286	226	255	41	10	178	996

Notes

¹ The insurance and reinsurance debtors classified as not rated comprise personal policyholders and small corporate customers that do not have individual credit ratings. The overall credit risk to the Group is deemed to be low as the cover could be cancelled if payment were not received on a timely basis.

As at 31 December 2008

	Credit rating relating to financial assets that are neither past due nor impaired						Total of financial assets that are neither past due nor impaired
	AAA	AA	A	BBB	<BBB	Not rated	
	£m	£m	£m	£m	£m	£m	£m
Debt securities	8,253	1,495	1,461	303	79	50	11,641
Loans and receivables and short term investments	60	7	7	1	3	88	166
Reinsurers' share of insurance contract liabilities	71	495	762	175	50	184	1,737
Insurance and reinsurance debtors ¹	26	45	74	31	6	2,414	2,596
Derivative assets	—	—	118	—	—	—	118
Other debtors	—	—	—	—	—	357	357
Cash and cash equivalents	282	781	313	29	1	208	1,614

With the exception of AAA rated government debt securities, the largest aggregate credit exposure does not exceed 2% of the Group's total financial assets.

The Group is exposed to concentrations of risk with individual reinsurers, due to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable credit ratings. Reinsurance counterparties are subject to a rigorous internal assessment process on an ongoing basis to ensure that their creditworthiness continues to be satisfactory and the potential impact from reinsurer default is measured regularly and managed accordingly. The Group Reinsurance Credit Committee oversees the management of these risks. Group standards are set such that reinsurers that have a financial strength rating of less than 'A-' with Standard & Poor's, or a comparable rating, are removed from the Group's authorised list unless the Group's internal review discovers exceptional circumstances in favour of the reinsurer. Collateral is taken to mitigate exposures, where appropriate, to acceptable levels or the size or credit quality of the exposure. At 31 December 2009 the Group held collateral against £93m (2008 £64m) of reinsurers' share of insurance contract liabilities.

The Group's largest reinsurance exposures to active reinsurance groups are Munich Re, SEB Group and HDI. At 31 December 2009 the reinsurance asset recoverable from these groups does not exceed 3% of the Group's total financial assets. Stress tests are performed on the Group's reinsurance assets and the limits are set such that in a catastrophic event the exposure to a single reinsurer is estimated not to exceed 2% of the Group's total financial assets. Certain of the Group's subsidiaries are members of government mandated pools in various parts of the world. As of 31 December 2009 the largest pool (by premium volume) is Pool Re operated by the UK Government to provide terrorism cover.

There were no material financial assets that would have been past due or impaired had the terms not been renegotiated

The following table provides information regarding the carrying value of financial assets that have been impaired and the ageing of financial assets that are past due but not impaired as at 31 December 2009

	Neither past due nor impaired £m	Financial assets that are past due but not impaired				Financial assets that have been impaired £m	Carrying value in the statement of financial position £m	Impairment losses charged to the income statement £m
		Up to three months £m	Three to six months £m	Six months to one year £m	Greater than one year £m			
Debt securities	11,492	5	–	3	3	5	11,508	4
Loans and receivables and short term investments	140	–	–	–	–	–	140	–
Reinsurers' share of insurance contract liabilities	1,778	–	–	–	–	17	1,795	(19)
Insurance and reinsurance debtors	2,548	190	29	15	23	7	2,812	(4)
Derivative assets	22	–	–	–	–	–	22	–
Other debtors	285	7	2	1	30	5	330	–
Cash and cash equivalents	996	–	–	–	–	–	996	–

As at 31 December 2008

	Neither past due nor impaired £m	Financial assets that are past due but not impaired				Financial assets that have been impaired £m	Carrying value in the statement of financial position £m	Impairment losses charged to the income statement £m
		Up to three months £m	Three to six months £m	Six months to one year £m	Greater than one year £m			
Debt securities	11,641	–	–	–	–	1	11,642	18
Loans and receivables and short term investments	166	–	–	–	–	–	166	–
Reinsurers' share of insurance contract liabilities	1,737	–	–	–	–	22	1,759	(3)
Insurance and reinsurance debtors	2,596	186	33	22	31	22	2,890	(8)
Derivative assets	118	–	–	–	–	–	118	–
Other debtors	357	10	5	1	14	–	387	–
Cash and cash equivalents	1,614	–	–	–	–	–	1,614	–

Regional operations are responsible for assessing and monitoring the creditworthiness of their counterparties (e.g. brokers and policyholders). Local credit committees are responsible for ensuring these exposures are within the risk appetite of the local operations within the overall financial control framework. Exposure monitoring and reporting is embedded throughout the organisation with aggregate credit positions reported and monitored at Group level.

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

RISK MANAGEMENT CONTINUED

At 31 December 2009, the Group had pledged **£1,035m** (2008 £1,049m) of financial assets as collateral for liabilities or contingent liabilities and had accepted **£1,008m** (2008 £1,329m) collateral that could be sold or pledged. The nature of the assets pledged as collateral comprises government securities of **£872m** (2008 £893m), cash and cash equivalents of **£82m** (2008 £93m) and debt securities of **£81m** (2008 £63m). The terms and conditions of the collateral pledged are market standard in relation to letter of credit facilities.

The Group is permitted to sell or repledge collateral held in the event of default by the owner, the fair value of which has been noted above at **£1,008m**. The terms and conditions of the collateral held are market standard. The assets held as collateral are readily convertible into cash.

At 31 December 2009, the Group had entered into short term sale and repurchase agreements for UK government securities (repos). The Group continues to recognise the debt securities in the statement of financial position as the Group remains exposed to the risks and rewards of ownership. The carrying value of these debt securities recognised in the statement of financial position is **£294m** (2008 £297m) and the carrying value of the associated liabilities is **£294m** (2008 £297m).

Market risk

The Group is exposed to the risk of potential losses from adverse movements in market rates and prices as follows:

- Interest rate risk
- Equity price risk
- Property price risk
- Foreign currency exchange risk
- Derivatives

The investment risk policy governs the Group's exposure to market risks. Exposures are controlled by the setting of investment limits in line with the Group's risk appetite.

The Group Investment Committee (GIC), on behalf of the Group Board, is responsible for reviewing and approving the investment strategy for the Group's investment portfolios. It provides approval for all major changes of the Group's investment strategy and, in particular, approves any substantive changes to the balance of the Group's funds between the major asset classes. Importantly the GIC also approves the terms of reference of the Group's main operational investment committee, the Group Asset Management Committee (GAMC). The BRC issues GAMC with investment risk limits.

Interest rate risk

The fair value of the Group's portfolio of fixed income securities is inversely correlated to changes in the market interest rates. Thus if interest rates fall, the fair value of the portfolio would tend to rise and vice versa as set out in the sensitivity analysis on page 92.

Equity price risk

The Group's portfolio of equity securities is subject to equity risk arising from changes in market price. Thus if the value of equities rises so will the fair value of its portfolio and vice versa as set out in the sensitivity analysis on page 92.

The Group sets appropriate risk limits to ensure that no significant concentrations to individual companies or sectors arise. The Group takes a long term view in selecting shares and looks to build value over a sustained period of time rather than churning the portfolio looking for short term gains from its equity holdings.

The Group makes use of derivative products as appropriate to protect the portfolio from losses outside of its risk appetite.

Property price risk

The Group's portfolio of properties is subject to property price risk arising from changes in the market value of properties. Thus if the value of property falls so will the fair value of the portfolio as set out in the sensitivity analysis on page 92.

A number of the Group's property holdings are Group occupied and therefore are reported within property and equipment. The Group's investment in investment property is recorded as such and these investments are held as part of an efficient portfolio management strategy.

Foreign currency exchange risk

The Group operates in 34 countries. Accordingly, its net assets are subject to foreign currency exchange rate movements. The Group's primary foreign currency exposures are to the Danish Krone, Canadian Dollar, Swedish Krona and the Euro. If the value of Sterling strengthens then the value of non Sterling net assets will decline when translated into Sterling and consolidated.

The Group incurs exposure to foreign currency exchange risk in two ways:

- Operational foreign currency exchange risk – by underwriting liabilities in currencies other than the currency of the primary environment in which the business units operate (non functional currencies)
- Structural foreign currency exchange risk – by investing in overseas subsidiaries and operating an international insurance group

Operational foreign currency exchange risk is managed within the Group's individual operations by broadly matching assets and liabilities by currency.

Structural foreign currency exchange risk is managed at a Group level through forward foreign exchange contracts. Derivatives are used to manage exposures within the limits that have been set. In managing structural foreign currency exchange risk, net assets maintained by the Group's subsidiaries in local currencies are taken into account to satisfy local regulatory solvency and internal risk based capital requirements. These assets should prove adequate to support local insurance activities irrespective of foreign currency exchange rate movements. Consequently, this may affect the value of the consolidated shareholders' equity expressed in Sterling.

At 31 December 2009, the Group's total shareholders' equity analysed by currency is:

	Sterling £m	Danish Krone/Euro £m	Canadian Dollar £m	Swedish Krona £m	Other £m	Total £m
Shareholders' equity at 31 December 2009	1,495	893	339	263	501	3,491
Shareholders' equity at 31 December 2008	1,889	753	290	451	456	3,839

Shareholders' equity is stated after taking account of the effect of forward foreign exchange contracts. On this basis, a 10% change in Sterling against Danish Krone/Euro, Canadian Dollar or Swedish Krona would have the following impact on shareholders' equity:

	10% strengthening in Sterling against Danish Krone/Euro £m	10% weakening in Sterling against Danish Krone/Euro £m	10% strengthening in Sterling against Canadian Dollar £m	10% weakening in Sterling against Canadian Dollar £m	10% strengthening in Sterling against Swedish Krona £m	10% weakening in Sterling against Swedish Krona £m
Movement in shareholders' equity at 31 December 2009	(82)	99	(31)	38	(24)	29
Movement in shareholders' equity at 31 December 2008	(68)	84	(26)	32	(39)	48

The analysis aggregates the Danish Krone exposure and the Euro exposure as currently the Danish Krone is closely pegged to the Euro. The Group considers the aggregate exposures when reviewing its hedging strategy.

Apart from the impact on derivative financial instruments covered below, the changes arise from retranslation of foreign subsidiaries' net assets positions from their functional currencies into Sterling, with movements being taken through the translation reserve. These movements in exchange rates therefore have no impact on profit.

Derivatives

The Group may use derivative financial instruments for the purpose of reducing its exposure to adverse fluctuations in interest rates, foreign exchange rates and equity price risk. The Group does not use derivatives to leverage its exposure to markets and does not hold or issue derivative financial instruments for speculative purposes. Forward contracts are used to reduce the risk of adverse currency movements on certain forecast future cash transactions and for structural hedging. The policy on use of derivatives is approved by the BRC.

RISK MANAGEMENT CONTINUED

	Remaining life			Fair value		Notional principal amounts	
	Less than one year £m	One to five years £m	More than five years £m	2009 £m	2008 £m	2009 £m	2008 £m
Cross currency							
Liability	11	–	–	11	85	1,727	1,286
Equity/index							
Asset	22	–	–	22	118	see below	see below
Liability	50	–	2	52	61	see below	see below

At 31 December 2009 there were derivative contracts in place to protect the value of the UK and European equity portfolios of the Group. These provided limited protection against declines in market levels whilst also capping participation in any appreciation of the market. In total, this strategy covered an underlying equity value up to approximately **£640m**. If UK and European equity markets decreased by 15%, the impact of these derivatives as of 31 December 2009 would be to decrease the impact of the decline by **£46m** (2008: £32m).

At 31 December 2009 the Group held forward foreign exchange contracts that are designated as hedging instruments to reduce structural foreign exchange risk. The derivatives are included in the table above. Further information on designated hedges can be found in note 28.

Sensitivity analysis

The Group uses a number of sensitivity or stress test based risk management tools to understand the impact on earnings and capital in both normal and stressed conditions. These stress tests combine deterministic shocks, analysis of historical scenarios and stochastic modelling using the Individual Capital Assessment (ICA) models to inform the Group's decision making and planning process and also for identification and management of risks within the business units.

The following table provides an indication of some of the single factor changes adopted within the Group.

Changes in the income statement and equity

	Increase/(decrease) in income statement		Decrease in equity	
	2009 £m	2008 £m	2009 £m	2008 £m
Interest rate markets ²				
Impact on fixed interest securities of increase in interest rates of 100bps	–	–	(350)	(290)
Impact on loan capital of increase in interest rates of 100bps ³	–	(3)	–	–
Equity markets ⁴				
Direct impact on equities of a 15% fall in equity markets	(13)	(50)	(135)	(91)
Mitigating impact arising from derivatives held	46	32	–	–
Property markets ⁴				
Decrease of property markets of 15%	(59)	(55)	(24)	(28)

Notes

1 This analysis assumes that there is no correlation between equity price, interest rate and property market rate risks. It also assumes that all other assets and liabilities remain unchanged and that no management action is taken. This analysis does not represent management's view of future market change but reflects management's view of key sensitivities.

2 The sensitivity of the fixed interest securities of the Group has been modelled by reference to a reasonable approximation of the average interest rate sensitivity of the investments held within each of the portfolios.

3 The impact on the fair value of the loan capital is a decrease of **£69m** (2008: £32m).

4 The effect of movements in equity and property markets is reflected as a one time decrease of worldwide equity and property markets on 1 January 2010 and 1 January 2009 which results in a 15% decline in the value of the Group's assets in these investment categories.

5 This analysis has not considered the impact of the above market changes on the valuation of the Group's insurance liabilities.

With reference to sensitivity analysis within insurance risk, the Group has exposures to risks in each class of business within each operating segment that may develop and that could have a material impact upon the Group's financial position. The geographical and insurance risk diversity within the Group's portfolio of issued insurance policies makes it not possible to predict whether material development will occur and, if it does occur, the location and timing of such an occurrence.

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

Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Group has no tolerance for liquidity risk and is committed to meeting all liabilities as they fall due. The investment risk limits set by the BRC ensure that the Group's portfolio is kept in highly liquid marketable securities sufficient to meet its liabilities as they come due based on actuarial assessment. The limits are monitored at a Group level as part of the Group Risk exposure monitoring and BRC reporting process.

In addition the Group has committed credit facilities available as set out in note 22.

Maturity periods or contractual repricing

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

As at 31 December 2009

	Less than one year £m	One to two years £m	Two to three years £m	Three to four years £m	Four to five years £m	Five to ten years £m	Greater than ten years £m	Total £m	Carrying value in the statement of financial position* £m
Subordinated guaranteed US\$ bonds	–	–	–	–	–	–	15	15	14
Subordinated guaranteed perpetual bonds	–	–	–	–	–	375	–	375	315
Subordinated guaranteed perpetual notes	–	–	–	–	450	–	–	450	497
Subordinated guaranteed dated notes	–	–	–	–	–	500	–	500	491
Provision for unearned premiums	3,305	408	71	20	17	14	3	3,838	3,838
Provision for losses and loss adjustment expenses	3,146	1,686	1,172	888	652	1,877	2,154	11,575	10,613
Direct insurance creditors	186	1	–	–	–	–	–	187	187
Reinsurance creditors	296	5	2	1	1	1	–	306	306
Borrowings	294	–	–	–	–	1	–	295	295
Deposits received from reinsurers	10	–	–	–	–	–	–	10	10
Derivative trading liabilities	61	–	–	–	–	2	–	63	63
Total	7,298	2,100	1,245	909	1,120	2,770	2,172	17,614	16,629
Interest on bonds and notes	112	112	112	112	112	268	13	841	

* The carrying value in the statement of financial position is on a discounted basis.

RISK MANAGEMENT CONTINUED

As at 31 December 2008

	Less than one year £m	One to two years £m	Two to three years £m	Three to four years £m	Four to five years £m	Five to ten years £m	Greater than ten years £m	Total £m	Carrying value in the statement of financial position* £m
Subordinated guaranteed US\$ bonds	–	–	–	–	–	–	16	16	15
Subordinated guaranteed Euro bonds	484	–	–	–	–	–	–	484	481
Subordinated guaranteed perpetual bonds	–	–	–	–	–	375	–	375	310
Subordinated guaranteed perpetual notes	–	–	–	–	–	450	–	450	505
Provision for unearned premiums	3,361	382	67	7	7	7	4	3,835	3,835
Provision for losses and loss adjustment expenses	4,033	1,933	1,380	962	679	1,615	1,565	12,167	11,220
Direct insurance creditors	222	1	–	–	–	1	–	224	224
Reinsurance creditors	320	1	–	–	–	–	–	321	321
Borrowings	298	1	1	–	–	–	–	300	300
Deposits received from reinsurers	73	3	–	–	–	–	–	76	76
Derivative trading liabilities	144	–	–	–	–	2	–	146	146
Total	8,935	2,321	1,448	969	686	2,450	1,585	18,394	17,433
Interest on bonds and notes	97	65	65	65	65	146	16	519	

The figures above are presented on an undiscounted basis

The capital and interest payable on the bonds and notes has been included until the dates on which the Group has the option to call the instruments and the interest rates are reset. For further information on the terms of the bonds and notes see note 19 to the financial statements

Undiscounted interest payments are calculated based on underlying fixed interest rates or prevailing market floating rates as applicable (as detailed in note 19). Year end exchange rates have been used for interest projections on loans in foreign currencies

Capital management

The maintenance of a strong capital position of the Group is critical to its ability to conduct business

The Group maintains sufficient capital, which comprises shareholders' equity and subordinated loan capital, to meet its plan and objectives. This represents sufficient surpluses for both regulatory and economic capital, as well as sufficient capital to support the Group's aim of maintaining single 'A' ratings.

To provide protection against material events or shocks, the Group would normally expect to hold sufficient capital to maintain significant economic and regulatory surpluses.

The maintenance of a capital position in excess of regulatory requirements is an absolute requirement for all of the Group's regulated entities. There is no tolerance for breaching capital requirements for any regulated entity.

Economic capital

Economic capital is the Group's preferred measure of capital sufficiency. It is the Group's own assessment of the amount of capital it needs to hold to meet its obligations given the Group's risk appetite. Assets and liabilities are valued on an economic basis providing the most realistic representation of the Group's financial condition.

The economic capital analysis compares the economic value of the Group's assets with the total resources required in a range of adverse scenarios, calibrated to a defined risk tolerance consistent with the Group's 'A' rating which is in line with target. The economic capital surplus is the amount by which the economic assets exceed the total resources required. The total resources required is the amount of assets the Group needs today to meet its liabilities under the defined risk tolerance. The Group defines the economic capital required as the difference between the total resource requirement and the accounting value of liabilities. At 31 December 2009, the Group's surplus economic capital was approximately **£1.8bn** (2008: £1.8bn).

The economic capital model is used to support, inform and improve the Group's decision making across the Group. It is used to determine the Group's optimum capital structure, its investment strategy, its reinsurance programme and to determine the pricing and target returns for each portfolio. The economic capital model is also used for the Group's ICA. The only adjustment made is to use the FSA's required calibration.

Regulatory solvency position

The Group remains fully compliant with both the FSA's risk based ICA methodology and Solvency I, which is used to calculate the Insurance Groups Directive (IGD) requirement.

For the Group's senior regulated insurance company, Royal & SunAlliance Insurance plc, the capital position continues to be reported under Solvency I.

As at 31 December 2009 the Group had an IGD surplus of approximately **£1.7bn** (2008: £1.7bn). IGD Surplus has remained constant, with retained earnings and fair value gains being offset by increases in pension liabilities and intangible assets. The coverage ratio stood at **2.4** times at 31 December 2009 (2008: 2.5 times).

The Group received its Individual Capital Guidance (based on its ICA submission) from the FSA in late 2009 and at the request of the FSA remains confidential. The ICA is a forward looking, economic assessment of the capital requirements of the Group based on its assessment of the risks to which it is exposed. The models used to determine the ICA have been integrated into the Group's business processes and are used to enhance the management of the Group.

The Group is also continuing to implement a number of capital management initiatives, including optimising its regulatory structure and improving the capital efficiency of its discontinued lines of business.

NOTES TO THE FINANCIAL STATEMENTS

I OPERATING SEGMENTS

The Group is organised into three operating segments – International, Emerging Markets and the UK. The UK is the Group's country of domicile and principal market (based on value of premium written in a single country). International comprises operations in Scandinavia, Canada, Ireland and Italy and Emerging Markets comprises the Group's operations in Latin America, Asia and the Middle East and Central and Eastern Europe. All operations are engaged in providing personal and commercial general insurance services. Central functions include the Group's internal reinsurance function and Group Corporate Centre.

This structure brings together operations with similar challenges and opportunities in order to give due focus to achieving the Group's objective of profitable growth across the business. Each operating segment is managed by a Chief Executive Officer (CEO) who is directly accountable to the Group CEO and the Board of Directors.

The Group uses the following key measures to assess the performance of its operating segments.

- Net written premiums
- Underwriting result
- Combined operating ratio (COR)

Net written premiums is the key measure of revenue used in internal reporting. Underwriting result and COR are the key internal measures of profitability of the operating segments. The COR reflects the ratio of claims costs and expenses (including commission) to premiums, expressed as a percentage.

All of these items are measured in accordance with the Group's accounting policies. Certain items included within the Group's investment result are allocated to the operating segments based on economic capital requirements.

Transfers or transactions between segments are entered into under normal commercial terms and conditions that would also be available to unrelated third parties.

Management basis

The management basis reflects the way management monitor the business. Operating result on a management basis comprises the underwriting result, the investment result and other activities.

Major components of underwriting result are net earned premiums, other operating income, net claims and benefits and underwriting and policy acquisition costs.

The investment result, excluding unwind of discount and foreign exchange, is disclosed as net investment return on the statutory basis. Investment income on the statutory basis includes an adjustment for depreciation on Group occupied properties.

Other activities primarily comprise administration expenses, ongoing investment in our operations in Central and Eastern Europe and other expenses of £84m (2008: £67m), the Group share in the loss after tax of its associates of £18m (2008: £18m) and investment expenses and charges of £30m (2008: £26m).

Segment revenue and results

Year ended 31 December 2009

	UK £m	International £m	Emerging Markets £m	Central functions £m	Total Group £m
Net written premiums	2,632	3,249	833	23	6,737
Underwriting result	75	282	29	–	386
Investment result	238	245	45	(5)	523
Insurance result	313	527	74	(5)	909
Other activities	1	(11)	(50)	(72)	(132)
Operating result (management basis)	314	516	24	(77)	777
Amortisation					(25)
Reorganisation costs					(75)
Add net share of losses after tax of associates					18
Results of operating activities (per income statement)					695
Combined operating ratio (%)	98.0	91.7	95.1	–	94.6
Other segment items included in the income statement					
Investment income	267	291	46	28	632
Interest expense	–	(10)	(10)	(10)	(30)
Depreciation and amortisation	(42)	(56)	(8)	(1)	(107)

Year ended 31 December 2008

	UK £m	International £m	Emerging Markets £m	Central functions £m	Total Group £m
Net written premiums	2,711	2,998	738	15	6,462
Underwriting result	99	262	23	–	384
Investment result	317	237	40	–	594
Insurance result	416	499	63	–	978
Other activities	1	(6)	(29)	(77)	(111)
Operating result (management basis)	417	493	34	(77)	867
Amortisation					(18)
Add net share of losses after tax of associates					18
Results of operating activities (per income statement)					867
Combined operating ratio (%)	97.6	91.2	96.4	–	94.5
Other segment items included in the income statement					
Investment income	325	259	38	32	654
Interest expense	–	(8)	(8)	(10)	(26)
Depreciation and amortisation	(55)	(50)	(3)	(1)	(109)

No other material non cash expenses are reported internally by segment.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

I OPERATING SEGMENTS CONTINUED

Segment assets and capital expenditure

Year ended 31 December 2009

	UK £m	International £m	Emerging Markets £m	Central functions £m	Total Group £m
Segment assets	7,627	10,326	2,476	1,380	21,809
Investment in associates	8	4	19	—	31
Total assets of continuing operations	7,635	10,330	2,495	1,380	21,840
Assets held for sale					201
Total assets					22,041

Capital expenditure

Property and equipment	7	21	5	3	36
Goodwill	—	23	131	—	154
Intangible assets	53	62	17	—	132

Year ended 31 December 2008

	UK £m	International £m	Emerging Markets £m	Central functions £m	Total Group £m
Segment assets	8,903	11,003	1,938	897	22,741
Investment in associates	8	4	111	—	123
Total assets of continuing operations	8,911	11,007	2,049	897	22,864
Assets held for sale					3
Total assets					22,867

Capital expenditure

Property and equipment	36	31	5	2	74
Goodwill	12	13	—	—	25
Intangible assets	50	22	—	—	72

Net written premiums and non current assets from major geographical regions

	Net written premiums		Non current assets	
	2009 £m	2008 £m	2009 £m	2008 £m
UK	2,632	2,711	390	385
Scandinavia	1,669	1,602	422	435
Canada	1,021	884	198	164
Other Europe	559	512	65	59
Other	856	753	600	498
	6,737	6,462	1,675	1,541

Net written premiums are allocated to the countries in which the business is underwritten or managed

Non current assets comprise goodwill and intangible assets property and equipment, investment property and investments in associates

Other Europe comprises the Group's businesses in Ireland and Italy

2 NET INVESTMENT RETURN

A summary of the gross investment income, net realised and net unrealised gains/(losses) included in the income statement is given below

	Investment income		Net realised gains/(losses)		Net unrealised gains/(losses)		Impairments		Total investment return	
	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m
Investment property	20	14	–	–	7	(98)	–	–	27	(84)
Equity securities	96	50	58	65	–	(12)	(58)	(43)	96	60
Debt securities	466	478	10	3	–	(10)	(4)	(18)	472	453
Other investments										
Loans secured by mortgages	1	1	–	(1)	–	–	–	–	1	–
Other loans	4	4	–	–	–	–	–	–	4	4
Other	33	36	(1)	(2)	(2)	–	–	–	30	34
Deposits cash and cash equivalents	17	57	–	3	–	1	–	–	17	61
Dervatives	(5)	12	2	82	(28)	59	–	–	(31)	153
Net investment return	632	652	69	150	(23)	(60)	(62)	(61)	616	681

The net investment return on equity and debt securities comprises the return on available for sale investments. The net investment return on derivatives represents the investment return on financial assets that the Group is required to classify as held for trading investments. The derivatives are used to provide an economic hedge for fair value changes of assets held within the investment portfolio.

During 2009 the accrued interest income on impaired financial assets was £nil (2008: £nil).

Direct operating expenses (including repairs and maintenance) arising from investment properties were not material in 2009 and 2008.

Unrealised capital gains and losses recognised directly in equity for available for sale assets are as follows:

	Net unrealised gains/(losses)		Net realised (gains)/losses transferred to income statement		Impairments transferred to income statement		Net movement recognised in equity	
	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m
Equity securities	176	(429)	(58)	(65)	58	43	176	(451)
Debt securities	76	242	(10)	(3)	4	18	70	257
Other	–	1	–	1	–	–	–	2
Total	252	(186)	(68)	(67)	62	61	246	(192)

3 NET CLAIMS AND BENEFITS

	2009 £m	2008 £m
Gross claims paid	5,294	4,747
Gross changes in insurance contract liabilities for claims	(295)	(542)
Reinsurance recoveries on losses and loss expenses paid	(504)	(484)
Reinsurers' share of change in insurance contract liabilities for claims	(108)	421
Net claims and benefits	4,387	4,142

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

4 PROFIT BEFORE TAX

The following items have been included in arriving at the profit before tax on continuing operations

Other operating income

	2009 £m	2008 £m
Engineering inspection fees	30	54
Other income	59	50
Other operating income	89	104

Engineering inspection fees are ancillary to the provision of engineering insurance cover

Other operating expenses

	2009 £m	2008 £m
Administration and other expenses	87	76
Reorganisation expenses	75	—
Investment expenses and charges	30	26
Amortisation of intangible assets	25	18
Foreign exchange gains	(7)	(3)
Other operating expenses	210	117

Reorganisation expenses relate to the UK cost reduction programme

Other lease payments

The operating lease payments recognised as an expense during the year were £60m (2008 £53m). The Group has no significant lease agreements that include contingent rents.

Finance costs

	2009 £m	2008 £m
Interest expense on loan capital	110	88
Other loan interest	6	20
Finance costs	116	108

Auditors' remuneration

	2009 £m	2008 £m
Fees payable to Deloitte LLP for audit of the Company's annual accounts	0.9	0.9
Fees payable to Deloitte LLP and its associates for other services		
The audit of the Company's subsidiaries, pursuant to legislation	3.4	3.1
Other services pursuant to legislation	0.4	0.3
Tax services	0.2	0.1
Services relating to corporate finance activities	0.3	0.6
Other	3.4	3.3
	8.6	8.3

Other includes fees payable to the Company's auditors in respect of consultancy services relating to business transformation processes and regulatory development projects.

Directors' emoluments

The aggregate emoluments of the directors, including amounts received from subsidiaries, were as follows

	2009 £000	2008 £000
Emoluments of executive directors	4,599	4,838
Fees and other payments to non-executive directors	698	584
	5,297	5,422

Details of directors' remuneration and pension benefits, including that of the highest paid director (Andy Haste), and details of directors' interests in the Parent Company are shown in the remuneration report

Employee information

Staff costs for all employees comprise

	2009 £m	2008 £m
Wages and salaries	788	717
Social security costs	95	89
Pension costs	94	91
Share based payments to directors and employees	27	25
	1,004	922

The average number of employees during the year was as follows

	2009 Number	2008 Number
UK	8,714	9,322
International	8,006	7,789
Emerging Markets	5,966	5,353
	22,686	22,464

5 INCOME TAX EXPENSE

The tax amounts charged in the income statement are as follows

	2009 £m	2008 £m
Current tax	119	240
Deferred tax	16	(67)
Taxation attributable to the Group	135	173

UK corporation tax is calculated at **28.0%** (2008: 28.5%) of the estimated assessable profit for the year. Since the Group operates around the world, it is subject to income taxes in many different jurisdictions. Taxation for jurisdictions other than the UK is calculated at the rates prevailing in those jurisdictions. Of the above taxation attributable to the Group **£(34)m** (2008: £38m) relates to UK corporation tax and **£169m** (2008: £135m) to overseas taxation.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

5 INCOME TAX EXPENSE CONTINUED

	2009 £m	2008 £m
Profit before tax	554	759
Tax at the UK rate of 28.0% (2008: 28.5%)	155	216
Tax effect of		
Income/gains not taxable	(19)	(28)
Expenses not deductible for tax purposes	15	11
Tax losses not recognised	2	1
Release of tax provided in respect of prior periods	(28)	(14)
Different tax rates of subsidiaries operating in other jurisdictions	(4)	(26)
Other	14	13
Income tax expense	135	173

6 EARNINGS PER SHARE ATTRIBUTABLE TO THE ORDINARY SHAREHOLDERS OF THE PARENT COMPANY

The earnings per ordinary share is calculated by reference to the profit attributable to the ordinary shareholders and the weighted average of shares in issue during the year

Basic

Basic earnings per share is calculated by dividing the profit attributable to the ordinary shareholders of the Parent Company by the weighted average number of ordinary shares in issue during the period, excluding ordinary shares purchased by the ESOP Trusts and held as treasury shares

	2009 £m	2008 £m
Profit attributable to the ordinary shareholders of the Parent Company	418	574
Less: cumulative preference dividends	(9)	(9)
Profit for the calculation of earnings per share	409	565
Weighted average number of ordinary shares in issue (thousands)	3,349,321	3,273,492
Basic earnings per share (p)	12.2	17.3

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Parent Company has share options and contingently issuable shares as categories of dilutive potential ordinary shares.

The calculation is performed for the dilutive potential ordinary shares to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Parent Company's shares) based on the monetary value of the subscription rights attached to outstanding dilutive potential ordinary shares. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the dilutive potential ordinary shares.

	2009 £m	2008 £m
Profit for the calculation of earnings per share	409	565
Weighted average number of ordinary shares in issue (thousands)	3,349,321	3,273,492
Adjustments for share options and contingently issuable shares (thousands)	33,890	53,034
Weighted average number of ordinary shares for diluted earnings per share (thousands)	3,383,211	3,326,526
Diluted earnings per share (p)	12.1	17.0

7 DIVIDENDS

	2009 p	2008 p	2009 £m	2008 £m
Ordinary dividend				
Final paid in respect of prior year	4 98	4 53	165	147
Interim paid in respect of current year	2 92	2 73	99	90
			264	237
Preference dividend			9	9
			273	246

At the Annual General Meeting (AGM) on 17 May 2010, a dividend in respect of 2009 of **5 33p** per share amounting to a total dividend of **£182m** is to be proposed. The proposed dividend will be paid and accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2010.

The Group subsidiaries may be subject to restrictions on the amount of dividends they can pay to shareholders as a result of local regulatory requirements. However, based on the information currently available, the Group does not believe that such restrictions materially impact the ability to meet obligations or pay dividends.

The trustees of the Royal & SunAlliance ESOP Trust and the Royal & SunAlliance ESOP Trust No 2 waived their entitlement to dividends which reduced the total dividend paid by **£1m** (2008: £1m).

8 GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill £m	Intangible asset arising from acquired claims provisions £m	Software development £m	Other £m	Total £m
Cost					
At 1 January 2009	344	134	533	144	1,155
Additions and transfers	154	–	96	36	286
Disposals and transfers	–	–	(11)	–	(11)
Exchange adjustment	10	(10)	(2)	8	6
At 31 December 2009	508	124	616	188	1,436
Accumulated amortisation					
At 1 January 2009	–	112	242	57	411
Amortisation charge	–	9	48	16	73
Amortisation on disposals	–	–	(11)	–	(11)
Exchange adjustment	–	(9)	(1)	4	(6)
At 31 December 2009	–	112	278	77	467
Net book amount at 31 December 2009	508	12	338	111	969

No material impairments have been recognised during the year, or in prior years.

Other intangible assets include renewal rights and acquired brands.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

8 GOODWILL AND OTHER INTANGIBLE ASSETS CONTINUED

	Goodwill £m	Intangible asset arising from acquired claims provisions £m	Software development £m	Other £m	Total £m
Cost					
At 1 January 2008	263	102	448	150	963
Additions and transfers	25	—	70	2	97
Disposals and transfers	—	—	(4)	(2)	(6)
Exchange adjustment	46	32	19	8	105
Other	10	—	—	(14)	(4)
At 31 December 2008	344	134	533	144	1,155
Accumulated amortisation					
At 1 January 2008	—	77	179	44	300
Amortisation charge	—	8	54	12	74
Amortisation on disposals	—	—	(4)	—	(4)
Exchange adjustment	—	27	13	1	41
At 31 December 2008	—	112	242	57	411
Net book amount at 31 December 2008	344	22	291	87	744

Amortisation expense of **£48m** (2008 £56m) has been charged to underwriting and policy acquisition costs and the balance is recognised in other operating expenses

Additions of software development comprise **£3m** (2008 £13m) of external software and **£93m** (2008 £57m) of internally developed software

Impairment tests for goodwill

Goodwill is allocated to the Group's cash generating units (CGUs) as follows

	2009 £m	2008 £m
UK	52	55
International	256	239
Emerging Markets	200	50

When testing for impairment, the recoverable amount of a CGU is determined based on value in use calculations. These calculations use cashflow projections based on financial budgets approved by management covering a five year period. Cashflows beyond the five year period are extrapolated using the estimated growth rates which do not exceed the long term average past growth rate for the insurance business in which the CGU operates

A number of other assumptions and estimates are involved in the application of a cashflow model to forecast operating cashflows, premium volumes, expenses and working capital requirements. Forecasts of future cashflows are based on the best estimates of future premiums, operating expenses using historical trends, general geographical market conditions, industry trends and forecasts and other available information. These assumptions are subject to review by management and the Group Audit Committee. The cashflow forecasts are adjusted by appropriate discount rates. Discount rates used are within a range of **8% to 14%** (2008 8% to 16%), are pre tax and reflect specific risks relating to the relevant segments at the date of evaluation. The weighted average growth rates used in 2009 are within a range of **1.0% to 3.5%** (2008 0.9% to 3.5%)

No material impairments have been recognised during the year, or in prior years

9 PROPERTY AND EQUIPMENT

	Group occupied property – land and buildings £m	Other £m	Total £m
Cost/valuation			
At 1 January 2009	187	427	614
Additions	1	35	36
Acquisition of subsidiaries	–	5	5
Disposals	–	(19)	(19)
Revaluation adjustment	(4)	–	(4)
Exchange adjustment	(6)	(4)	(10)
Transfer to investment property	(19)	–	(19)
At 31 December 2009	159	444	603
Accumulated depreciation			
At 1 January 2009	–	299	299
Depreciation charge	2	32	34
Depreciation on disposals	–	(17)	(17)
Revaluation adjustment	(2)	–	(2)
Exchange adjustment	–	(2)	(2)
At 31 December 2009	–	312	312
Accumulated impairment			
At 1 January 2009	–	6	6
Exchange adjustment	–	1	1
At 31 December 2009	–	7	7
Net book amount at 31 December 2009	159	125	284

	Group occupied property – land and buildings £m	Other £m	Total £m
Cost/valuation			
At 1 January 2008	293	347	640
Additions	9	65	74
Disposal of subsidiaries	(92)	–	(92)
Disposals	–	(22)	(22)
Revaluation adjustment	(53)	–	(53)
Exchange adjustment	30	37	67
At 31 December 2008	187	427	614
Accumulated depreciation			
At 1 January 2008	–	258	258
Depreciation charge	3	32	35
Depreciation on disposals	–	(11)	(11)
Revaluation adjustment	(3)	–	(3)
Exchange adjustment	–	20	20
At 31 December 2008	–	299	299
Accumulated impairment			
At 1 January 2008	–	5	5
Exchange adjustment	–	1	1
At 31 December 2008	–	6	6
Net book amount at 31 December 2008	187	122	309

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

9 PROPERTY AND EQUIPMENT CONTINUED

The Group occupied property was revalued on 31 December 2009 by independent valuers

Depreciation expenses of **£34m** (2008: £35m) have been charged to underwriting and policy acquisition costs

The carrying amount of Group occupied property that would have been recognised had the assets been carried under the cost model at 31 December 2009 is **£140m** (2008: £160m)

10 INVESTMENT PROPERTY

Investment property consists of the following

	2009 £m	2008 £m
Land and buildings		
Freehold and long leasehold	390	363
Short leasehold	1	2
Total land and buildings	391	365

The movement in the carrying value of investment property is detailed below

	2009 £m	2008 £m
Investment property at 1 January	365	429
Additions from subsequent expenditure	1	10
Transfer from property and equipment	19	–
Sales and purchases	8	(3)
Fair value gains/(losses)	7	(98)
Exchange adjustment	(9)	27
Investment property at 31 December	391	365

Investment properties are included in the Group's investment portfolio to provide investment returns over the longer term in accordance with the Group's investment strategy. Investment properties are managed by external managers.

The lease agreements are normally drawn up in line with local practice and the Group has no significant exposure to leases that include contingent rents.

11 INVESTMENTS IN ASSOCIATES

The Group has the following investments in associates

	Country	Ordinary shareholding
Counce O'Hara & Company Limited	United Kingdom	30.0%
Royal Sundaram Alliance Insurance Company Limited	India	26.0%
Huestis Insurance & Associates Limited	Canada	25.0%
H&R Insurance Limited	Canada	25.0%
Syn Mun Kong Public Limited Company	Thailand	20.0%

Syn Mun Kong Public Limited Company is listed on the Stock Exchange of Thailand. The fair value of the Group's holding at 31 December 2009 is **£6m** (2008: £5m).

Summanned below are the assets, liabilities, revenue and profit and loss of the companies above. The comparatives below have not been restated following the acquisition of the controlling stake in Intouch Insurance Group BV in 2009, which was previously an associate.

	2009 £m	2008 £m
Total assets	300	400
Total liabilities	232	292
Total revenue	225	237
Goodwill on acquisition	12	88
Profit/(loss) for the year after tax	10	(26)

The Group's share of net assets and profit and loss are accounted for under the equity method.

Some associates that do not materially affect the results or assets of the Group have been omitted from this note.

12 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

	2009 £m	2008 £m
Equity securities	1,252	940
Debt securities	11,508	11,642
Financial assets measured at fair value	12,760	12,582
Loans and receivables and short term investments	140	166
Total financial assets	12,900	12,748

The Group's portfolio of equity securities comprises ordinary shares and unit trusts of **£987m** (2008: £780m) and other equity instruments of **£265m** (2008: £160m). Other equity instruments include preference shares of **£128m** (2008: £97m) and collective investment vehicles primarily invested in cash and bond assets of **£137m** (2008: £63m). The performance of these assets is typically not expected to correlate strongly to the performance of ordinary shareholdings.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

12 FINANCIAL ASSETS AND FINANCIAL LIABILITIES CONTINUED

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable

	Fair value hierarchy				
	2009				2008
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Total £m
Available for sale financial assets					
Equity securities	1,117	101	26	1,244	940
Debt securities	11,333	76	18	11,427	11,642
Financial assets at fair value through the income statement					
Equity securities	–	–	8	8	–
Debt securities	–	–	81	81	–
	12,450	177	133	12,760	12,582
Derivative assets at fair value through the income statement	–	22	–	22	118
Total	12,450	199	133	12,782	12,700
Derivative liabilities					
At fair value through the income statement	–	54	–	54	72
Designated as hedging instruments	–	9	–	9	74
Total	–	63	–	63	146

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

A reconciliation of Level 3 fair value measurements of financial assets is shown in the table below. There are no Level 3 financial liabilities.

	Available for sale investments		Investments at fair value through income statement		Total £m
	Equity securities £m	Debt securities £m	Equity securities £m	Debt securities £m	
Level 3 financial assets at 1 January 2009	68	13	6	92	179
Total gains/(losses) recognised in					
Income statement	(38)	–	2	–	(36)
Other comprehensive income	(5)	6	–	–	1
Purchases	1	8	–	–	9
Disposals	–	(8)	–	–	(8)
Exchange adjustment	–	(1)	–	(11)	(12)
Level 3 financial assets at 31 December 2009	26	18	8	81	133

There were no transfers into or out of Level 3 during the period.

Of the total gains/(losses) for the period recognised in the income statement (shown in the reconciliation above), £nil relates to assets held at the end of the reporting period.

Of the total gains/(losses) for the period recognised in other comprehensive income (shown in the reconciliation above), £1m relates to assets held at the end of the reporting period and is reported in movements in the revaluation reserves in the statement of changes in equity.

13 REINSURERS' SHARE OF INSURANCE CONTRACT LIABILITIES

	2009 £m	2008 £m
Reinsurers' share of provision for unearned premiums	301	259
Reinsurers' share of provision for losses and loss adjustment expenses	1,494	1,500
Total reinsurers' share of insurance contract liabilities	1,795	1,759
To be settled within 12 months	955	734
To be settled after 12 months	840	1,025

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

	2009 £m	2008 £m
Reinsurers' share of provision for unearned premiums at 1 January	259	215
Premiums ceded to reinsurers	1,007	811
Reinsurers' share of premiums earned	(957)	(803)
Changes in reinsurance asset	50	8
Reinsurers' share of portfolio transfers	–	(1)
Exchange adjustment	(8)	37
Reinsurers' share of provision for unearned premiums at 31 December	301	259

The following changes have occurred in the reinsurers' share of provision for losses and loss adjustment expenses during the year

	2009 £m	2008 £m
Reinsurers' share of provision for losses and loss adjustment expenses at 1 January	1,500	1,657
Reinsurers' share of total claims incurred	612	63
Total reinsurance recoveries received	(504)	(484)
Reinsurers' share of portfolio transfers and acquisitions of subsidiaries	6	2
Exchange adjustment	(84)	256
Other movements	3	6
Transfer to assets held for sale	(39)	–
Reinsurers' share of provision for losses and loss adjustment expenses at 31 December	1,494	1,500

14 INSURANCE AND REINSURANCE DEBTORS

	2009 £m	2008 £m
Insurance debtors comprise		
Due from policyholders	1,208	1,218
Due from intermediaries	1,417	1,411
Total insurance debtors	2,625	2,629
Reinsurance debtors	187	261
Total insurance and reinsurance debtors	2,812	2,890

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

15 DEFERRED ACQUISITION COSTS

	2009 £m	2008 £m
Deferred acquisition costs at 1 January	653	542
Exchange adjustment	(5)	53
Acquisition costs deferred during the year	894	793
Amortisation charged during the year	(875)	(728)
Credit to income statement in the year	19	65
Acquisition of subsidiaries	6	–
Other	1	(7)
Deferred acquisition costs at 31 December	674	653

The Group records acquisition costs recovered from reinsurers as a deduction from deferred acquisition costs

16 OTHER DEBTORS AND OTHER ASSETS

	2009 £m	2008 £m
Derivatives used for economic hedging purposes	22	118
Other debtors	330	387
Pension scheme surplus	39	602
Accrued interest and rent	203	193
Prepayments	158	177
Total other debtors and other assets	752	1,477
To be settled within 12 months	606	806
To be settled after 12 months	146	671

17 CASH AND CASH EQUIVALENTS

	2009 £m	2008 £m
Cash and cash equivalents (as reported within the statement of cashflows)	1,105	1,614
Less cash and cash equivalents reported in assets held for sale	(109)	–
Total cash and cash equivalents	996	1,614

The interest bearing financial assets included in cash and cash equivalents had an effective interest rate of 1.09% (2008 2.64%) and had an average maturity of 25 days (2008 15 days)

18 SHARE CAPITAL

During the year 28,969,400 (2008 24,707,235) ordinary shares were issued on the exercise of employee share options and awards for a cash consideration of £11m (2008 £19m). The Parent Company also issued 61,767,996 (2008 51,770,891) ordinary shares during the year under the scrip scheme as approved by shareholders.

The total nominal value of ordinary shares issued during the year was **£26m** (2008 £20m)

	2009 £m	2008 £m
Authorised		
5,750,000,000 ordinary shares of 27 5p each (2008 4,250,000,000 ordinary shares of 27 5p each)	1,581	1,169
300,000,000 preference shares of £1 each (2008 300,000,000 preference shares of £1 each)	300	300
Issued and fully paid		
3,420,173,187 ordinary shares of 27 5p each (2008 3,329,435,791 ordinary shares of 27 5p each)	941	915
125,000,000 preference shares of £1 each (2008 125,000,000 preference shares of £1 each)	125	125
	1,066	1,040

The Royal & SunAlliance ESOP Trust holds ordinary shares in the Parent Company, which may subsequently be transferred to employees (other than the executive directors). At 31 December 2009 the Trust held **4,470,800** ordinary shares (2008 7,976,673) in the Parent Company with a nominal value of **£1m** (2008 £2m) and a mid market value, based on the market value of the Parent Company's shares at the close of business on 31 December 2009 as shown in the Official List of the London Stock Exchange, of **£5m** (2008 £11m)

The Royal & SunAlliance ESOP Trust No 2 holds ordinary shares in the Parent Company, which may subsequently be transferred to employees including executive directors. At 31 December 2009 the Trust held **2,859,431** ordinary shares (2008 3,919,975) in the Parent Company with a nominal value of **£1m** (2008 £1m) and a mid market value, based on the market value of the Parent Company's shares at the close of business on 31 December 2009 as shown in the Official List of the London Stock Exchange, of **£3m** (2008 £5m)

The Royal & SunAlliance ESOP Trust No 3 holds **2,963,136** ordinary shares (2008 2,311,218) in the Parent Company at 31 December 2009 with a nominal value of **£1m** (2008 £1m) and a mid market value, based on the market value of the Parent Company's shares at the close of business on 31 December 2009 as shown in the Official List of the London Stock Exchange, of **£3m** (2008 £3m). Of this, **2,819,097** shares are beneficially owned by Group employees as Voluntary Deferred Shares under the Long Term Incentive Plan. The remaining **144,039** ordinary shares may subsequently be transferred to employees, including executive directors, under one of the Group's employee share plans.

Rights attaching to the shares

The rights attaching to each class of share may be varied with the consent of the holders of 75% of the issued shares of that class.

Preference shareholders shall not have any right to receive notice of, attend, speak or vote at any general meeting of the Parent Company unless

- The preferential dividend on such shares for the dividend payment period immediately prior to the issue of the notice is in arrears or if any arrears of deficiency of dividend in respect of any preceding period has not been paid in full
- A resolution is proposed varying the rights attached to preference shares, for the winding up of the Parent Company or for a reduction of capital in the Parent Company (in which case preference shareholders may only vote on such resolution)
- In such other circumstances as the directors may determine prior to the allotment of any preference shares

The Parent Company in general meeting may by ordinary resolution declare dividends, but no dividend shall exceed the amount recommended by the directors or permitted by law. The directors may also pay such interim dividends as they think fit and pay the fixed dividends payable on any shares of the Parent Company half yearly or otherwise on fixed dates. Subject to shareholder approval, the directors may allow shareholders to receive new ordinary shares in lieu of dividends paid in cash.

Provided a resolution of the Board exists, and in priority to any payment of dividend to other shareholders (other than any dividend not exceeding 0.1p per share), holders of preference shares are entitled to a cumulative preferential dividend of 7.375% per annum, payable out of the profits available for distribution, to be distributed in half yearly instalments and the shares are not redeemable. Preference shareholders have no further right to participate in the profits of the Parent Company. In addition, preference shares do not confer

- Any right to participate in any offer by way of rights or otherwise to subscribe for additional shares in the Parent Company (except where required by law)
- Any rights of conversion
- Any right to participate in any issue of bonus shares

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

18 SHARE CAPITAL CONTINUED

The directors may deduct from any dividend or other monies payable to any shareholder all sums of money presently payable by him to the Parent Company on account of calls or otherwise in relation to his shares in the Parent Company

If the Parent Company is wound up, the liquidator may, with the sanction of an extraordinary resolution of the Parent Company divide among the shareholders the whole or any part of the assets of the Parent Company and may, for such purpose, set such value as he deems fair upon any property to be divided. The liquidator may also, with like sanction, vest the whole or any part of the Parent Company's assets in trustees upon such trusts for the benefit of the contributories as the liquidator shall think fit. No shareholder shall be compelled to accept any shares or other securities or other assets that are subject to any liability.

On a return of capital on a winding up (liquidation), preference shareholders are entitled, in priority to holders of ordinary shares of the Parent Company, to receive out of the surplus assets of the Parent Company any arrears and accruals of the dividend together with the greater of the price at which the gross yield on each preference share is equal to the mean gross yield on 3.5% War Loan or such Government Stock as may be agreed (but not exceeding twice the nominal amount of the preference share) and the nominal amount of the share together with any premium paid on issue.

The directors may make calls on shareholders in respect of monies unpaid on their shares. If any call is not complied with the directors may serve a notice on such shareholder requiring him to pay the call together with any interest and expenses incurred by the Parent Company. Failure to comply with a notice may result in forfeiture of any share which is the subject of the notice (including any dividends declared and other monies payable in respect of the shares so forfeited).

The Parent Company has a first and paramount lien on every share that is not fully paid for all monies called or payable in respect of such share. The Parent Company may sell any share on which the Parent Company has a lien passed following service of a notice on the shareholder demanding payment of the sum and giving notice of the Parent Company's intention to sell in default of such payment.

The Parent Company shall be entitled to sell any share of a shareholder if no cheque, warrant or order sent by the Parent Company in respect of the share in question has been cashed and no communication has been received by the Parent Company from the shareholder for a period of 12 years.

No shareholder is, unless the directors otherwise determine, entitled to attend or vote either personally or by proxy at any general meeting if

- Any call or any sum presently payable by him to the Parent Company in respect of such share remains unpaid or
- The shareholder has failed to comply with a notice under section 793 of the Companies Act 2006 and is in default for a period of 14 days from the date of service of such notice.

Further, if a shareholder who holds 0.25% or more (in nominal value) of the issued shares is in default of a section 793 notice then the directors may also withhold the payment of any dividend and restrict the transfer of shares held by such shareholder.

Save with the consent of preference shareholders, the directors shall not increase the amount of any shares of any class (or any securities convertible into any shares of any class), ranking as regards participation in the profits or assets of the Parent Company (otherwise than on a redemption or purchase by the Parent Company of any such share) in priority to the preference shares.

The directors may refuse to register any transfer of any share which is not a fully paid up share provided that such refusal does not prevent dealing in the shares from taking place on an open and proper basis. The directors may likewise refuse to register any transfer in favour of more than four persons jointly.

The directors may also refuse to register any transfer of any certificated share unless

- A duly stamped instrument of transfer is delivered to the Parent Company's registered office together with the certificates of the shares to which it relates and any other evidence that the directors may reasonably require to show the right of the transferor to make the transfer.
- The instrument of transfer is in respect of only one class of share.

The directors can require a shareholder to provide evidence that shares held by such shareholder are not held by or on behalf of a US Holder (as defined in the Articles of Association). The directors may require a US Holder to sell its shares to a non-US resident, failing which the Parent Company may effect a sale of such shares. The directors may refuse to register a transfer by a US Holder where it is made to a US resident.

19 LOAN CAPITAL

	2009 £m	2008 £m
Subordinated guaranteed US\$ bonds	14	15
Subordinated guaranteed Euro bonds	–	481
Subordinated guaranteed dated notes	491	–
Total dated loan capital	505	496
Subordinated guaranteed perpetual bonds	315	310
Subordinated guaranteed perpetual notes	497	505
Total loan capital	1,317	1,311

The subordinated guaranteed US Dollar bonds ('Yankee Bonds') have a nominal value of \$24m and a redemption date of 15 October 2029. The rate of interest payable on the Yankee Bonds is 8.95%.

The subordinated guaranteed Euro bonds (€500m) were repaid on 15 October 2009. The interest rate on €200m of the Euro bonds was at a fixed rate of 6.875%. The interest rate on €300m of the Euro bonds was at a floating rate from the date of issue of EURIBOR plus 1.25%.

The subordinated guaranteed dated notes were issued on 20 May 2009 at a fixed rate of 9.375%. The nominal £500m bonds have a redemption date of 20 May 2039. The parent company has the option to repay the notes on specific dates from 20 May 2019. If the notes are not repaid on that date, the rate of interest would be reset at a rate of 8.475% plus the appropriate benchmark gilt yield for a further five year period.

The subordinated perpetual guaranteed bonds have a nominal value of £375m and the rate of interest payable is 6.701% of the nominal value. The Group has the option to repay the bonds on specific dates starting 12 July 2017. If the bonds are not repaid, from that date, the interest rate payable would be LIBOR plus 2.51%.

The subordinated guaranteed perpetual notes have a nominal value of £450m and pay an annual coupon of 8.50% with an option to call the notes, or if not called for the coupon rate to be reset on 8 December 2014 and every five years thereafter.

The bonds and the notes are contractually subordinated to all other creditors of the Parent Company such that in the event of a winding up or of bankruptcy, they are to be repaid only after the claims of all other creditors have been met.

There have been no defaults on any of the bonds or notes during the year. The Group has the option to defer interest payments on the bonds and notes but to date has not exercised this right.

The aggregate fair value of total loan capital at 31 December 2009 is **£1,400m** (2008: £1,079m).

20 INSURANCE CONTRACT LIABILITIES

	2009 £m	2008 £m
Provision for unearned premiums	3,838	3,835
Provision for losses and loss adjustment expenses	10,613	11,220
Total insurance contract liabilities	14,451	15,055

Provision for unearned premiums

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

	2009 £m	2008 £m
Provision for unearned premiums at 1 January	3,835	3,383
Premiums written	7,744	7,273
Less premiums earned	(7,710)	(7,161)
Changes in provision for unearned premiums	34	112
Gross portfolio transfers, acquisitions and disposals	31	(3)
Exchange adjustment	(62)	343
Provision for unearned premiums at 31 December	3,838	3,835

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

20 INSURANCE CONTRACT LIABILITIES CONTINUED

Provision for losses and loss adjustment expenses

The following changes have occurred in the provision for losses and loss adjustment expenses during the year

	2009 £m	2008 £m
Provision for losses and loss adjustment expenses at 1 January	11,220	10,344
Claims losses and expenses incurred	4,999	4,205
Total claims payments made in the year, net of recoveries	(5,294)	(4,747)
Gross portfolio transfers, acquisitions and disposals	57	(12)
Exchange adjustment	(298)	1,362
Other movements	75	68
Transfer to liabilities held for sale	(146)	—
Provision for losses and loss adjustment expenses at 31 December	10,613	11,220

Assumptions

The total value of outstanding claims provisions less related reinsurance recoveries before discounting is **£9,806m** (2008 £10,391m)

Claims on certain classes of business have been discounted as follows

		Discount rate		Average number of years to settlement	
	Category	2009 %	2008 %	2009 Years	2008 Years
UK	Asbestos and environmental	5.00	5.00	14	15
Scandinavia	Disability	3.64	3.66	12	11
Canada	Asbestos and environmental	4.75	5.00	5	6

In determining the average number of years to ultimate claims settlement, estimates have been made based on the underlying claims settlement patterns

Claims development tables

The tables below present changes in the historical provision for losses and loss adjustment expenses that were established in 2001 and the provision for losses and loss adjustment expenses arising in each subsequent accident year. The tables are presented at current year cumulative average exchange rates and have been adjusted for operations that have been disposed of.

The top triangle of the tables presents the estimated provision for ultimate incurred losses and loss adjustment expenses at the end of each accident year as at the end of each reporting period.

The lower (paid) triangle of the tables presents the amounts paid against those provisions in each subsequent accounting period.

The estimated provision for ultimate incurred losses changes as more information becomes known about the actual losses for which the initial provisions were set up and as the rate of exchange changes. The 2009 redundancy/(deficiency) represents the claims development of earlier accident years in the current accounting period.

Consolidated claims development table gross of reinsurance

	2001 and prior £m	2002 £m	2003 £m	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	Total £m
Estimate of cumulative claims										
At end of accident year	9,598	3,383	3,360	2,816	2,954	2,629	2,997	2,874	2,750	
One year later	10,149	3,118	3,195	2,573	2,874	2,655	2,984	2,886		
Two years later	10,280	3,198	3,075	2,385	2,758	2,557	2,978			
Three years later	10,570	3,160	2,952	2,272	2,632	2,480				
Four years later	10,903	3,076	2,872	2,191	2,557					
Five years later	11,380	3,060	2,806	2,144						
Six years later	11,276	3,029	2,791							
Seven years later	11,054	2,983								
Eight years later	11,063									
Claims paid										
One year later	3,128	1,357	1,252	955	1,265	1,082	1,373	1,449		
Two years later	1,540	471	368	318	367	401	452			
Three years later	1,247	318	252	205	209	213				
Four years later	797	213	182	166	160					
Five years later	527	119	121	98						
Six years later	396	90	85							
Seven years later	351	75								
Eight years later	289									
Cumulative claims paid	8,275	2,643	2,260	1,742	2,001	1,696	1,825	1,449		
2009 redundancy/(deficiency)	(9)	46	15	47	75	77	6	(12)		245
Reconciliation to the statement of financial position										
Current year provision before discounting	2,788	340	531	402	556	784	1,153	1,437	2,750	10,741
Exchange adjustment to closing rates										112
Discounting										(744)
Annuities										504
Present value recognised in the statement of financial position										10,613

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

20 INSURANCE CONTRACT LIABILITIES CONTINUED

Consolidated claims development table net of reinsurance

	2001 and prior £m	2002 £m	2003 £m	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	Total £m
Estimate of cumulative claims										
At end of accident year	7,437	2,630	2,418	2,258	2,419	2,441	2,532	2,582	2,482	
One year later	7,731	2,577	2,454	2,122	2,297	2,423	2,538	2,576		
Two years later	7,814	2,571	2,367	1,934	2,210	2,328	2,517			
Three years later	8,164	2,547	2,251	1,846	2,135	2,247				
Four years later	8,207	2,456	2,189	1,779	2,054					
Five years later	8,680	2,431	2,130	1,731						
Six years later	8,621	2,399	2,109							
Seven years later	8,550	2,364								
Eight years later	8,501									
Claims paid										
One year later	2,358	1,086	883	710	947	983	1,143	1,289		
Two years later	1,190	352	300	261	293	350	366			
Three years later	1,051	262	209	183	168	190				
Four years later	564	171	109	140	141					
Five years later	405	93	91	87						
Six years later	257	73	63							
Seven years later	281	52								
Eight years later	228									
Cumulative claims paid	6,334	2,089	1,655	1,381	1,549	1,523	1,509	1,289		
2009 redundancy	49	35	21	48	81	81	21	6		342
Reconciliation to the statement of financial position										
Current year provision before discounting	2,167	275	454	350	505	724	1,008	1,287	2,482	9,252
Exchange adjustment to closing rates										110
Discounting										(687)
Annuities										444
Present value recognised in the statement of financial position										9,119

The loss development tables above are presented on an undiscounted basis. Prior year development in 2009 showed favourable experience across all accident years and regions and totalled £342m, net of reinsurance. The total discounting at the end of 2009 is £687m representing an increase of £16m in the year. In Scandinavia certain long tail liabilities are settled by an annuity and the discounted value of these annuities is shown separately. At the year end the annuity reserves are £444m (2008 £437m).

21 INSURANCE AND REINSURANCE LIABILITIES

	2009 £m	2008 £m
Direct insurance creditors	187	224
Reinsurance creditors	306	321
Total insurance and reinsurance liabilities	493	545

22 BORROWINGS

The Group's borrowings of **£295m** (2008: £300m) primarily relate to loans from credit institutions under a repurchase agreement. Further information is contained in the risk management section.

At 31 December 2009 total unsecured loans from credit institutions under committed credit facilities of **£455m** (2008: £455m) are available to the Group. There are no amounts outstanding at 31 December 2009 (2008: £nil). The facility expires in 2013.

At 31 December 2009 and 2008 the Group had in place a one billion US Dollar Euro commercial paper program. There are no amounts outstanding at 31 December 2009 (2008: £nil).

The Articles of Association of the Group defines a cap on borrowing limits. This cap is not being amended at the 2010 AGM. At 31 December 2009 the cap on borrowing limits is **£4,475m** (2008: £5,243m) of which **£1,635m** (2008: £1,625m) had been utilised.

23 CURRENT AND DEFERRED TAX

Current tax

	Asset		Liability	
	2009 £m	2008 £m	2009 £m	2008 £m
To be settled within 12 months	11	27	117	124
To be settled after 12 months	17	13	81	91
	28	40	198	215

Deferred tax

	2009 £m	2008 £m
Deferred tax assets	208	142
Deferred tax liabilities	(57)	(238)
Net deferred tax position at 31 December	151	(96)

The following are the major deferred tax assets and liabilities recognised by the Group and their movements during the year:

	Reclassification of debt £m	Retirement benefit obligations £m	Net insurance contract liabilities £m	Revaluation of investments £m	Other temporary differences £m	Total £m
Deferred tax at 1 January 2008	18	(42)	68	(78)	(103)	(137)
(Charge)/credit to the income statement for the year	–	(19)	(48)	14	120	67
(Charge)/credit to other comprehensive income for the year	–	(83)	–	37	10	(36)
(Charge)/credit to equity for the year	(2)	–	–	–	1	(1)
Net debit arising on acquisition/disposal of subsidiaries and other transfers	–	–	–	–	8	8
Exchange adjustment	–	1	4	(2)	–	3
Deferred tax at 31 December 2008	16	(143)	24	(29)	36	(96)
(Charge)/credit to the income statement for the year	–	(21)	(9)	20	(6)	(16)
Credit/(charge) to other comprehensive income for the year	–	269	–	(13)	(2)	254
Charge to equity for the year	(2)	–	–	–	(3)	(5)
Net debit arising on acquisition/disposal of subsidiaries and other transfers	–	–	–	–	9	9
Exchange adjustment	–	1	–	–	4	5
Deferred tax at 31 December 2009	14	106	15	(22)	38	151

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

23 CURRENT AND DEFERRED TAX CONTINUED

The current tax and deferred income tax (charged)/credited to each component of other comprehensive income is as follows

	Current tax		Deferred tax		Total	
	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m
Exchange gains and losses	(3)	43	(5)	–	(8)	43
Available for sale financial assets	(53)	12	(13)	37	(66)	49
Group occupied property	–	–	3	10	3	10
Fair value gains and losses	(53)	12	(10)	47	(63)	59
Pension fund actuarial gains and losses	–	–	269	(83)	269	(83)
Total (charged)/credited to other comprehensive income	(56)	55	254	(36)	198	19

The aggregate current and deferred tax relating to items that are (charged)/credited directly to equity is **£(1)m** (2008 £1m)

At the end of the reporting period, the Group has unused tax losses of **£1,584m** (2008 £1,582) and unused tax credits of **£11m** (2008 £14m) available for offset against future profits. A deferred tax asset of **£41m** (2008 £16m) has been recognised in respect of losses included within other temporary differences at 31 December 2009. No deferred tax asset has been recognised in respect of **£1,428m** (2008 £1,523m) tax losses and unused tax credits of **£11m** (2008 £14m) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of **£115m** (2008 £68m) which will expire between 2010 and 2027. Other tax losses and unused credits may be carried forward indefinitely.

The Group does not recognise deferred tax on the unremitted earnings of overseas subsidiaries, as the Group is able to control the remittance of earnings to the UK and there is no intention to remit any such earnings to the UK in the foreseeable future if the remittance would trigger a material incremental UK tax liability. The temporary difference in respect of the retained earnings of overseas subsidiaries is **£748m** (2008 £1,410m). Temporary differences at 31 December 2009 are significantly reduced from the previous year as a result of the repatriation of funds during the year and a change to UK tax legislation which largely exempts from UK tax overseas dividends received on or after 1 July 2009.

Deferred tax assets of **£129m** (2008 £nil), which are in excess of profits arising from the reversal of existing taxable temporary differences and that relate to tax jurisdictions in which the Group has suffered a loss in either the current or preceding period, have been recognised on the basis that future taxable profits will be available against which these can be utilised.

24 PROVISIONS

	2009 £m	2008 £m
Pensions and post retirement obligations	407	96
Reorganisation provisions	10	14
Other provisions	125	130
Total provisions at 31 December	542	240

Of the above, **£461m** is due to be settled outside of 12 months (2008 £155m)

Reorganisation provisions comprise costs relating to reorganisations mainly within the UK business. These provisions primarily comprise severance and property costs and are part of an ongoing program to achieve business improvement and expense savings.

Other provisions includes **£57m** (2008 £60m) held relating to vacant property leases, dilapidations and refurbishments, the costs relating to which will be borne across the period over which the leases expire, which is up to 20 years. Other provisions also includes Motor Insurance Bureau provision of **£25m** (2008 £23m).

See note 26 for further information regarding the pensions and post retirement benefit obligations.

Movements during the year on reorganisation and other provisions

	Reorganisation provisions £m	Other provisions £m
Provisions at 1 January 2009	14	130
Exchange adjustment	—	(1)
Credited	8	31
Utilised	(7)	(37)
Released	(8)	(11)
Acquisition of subsidiaries	3	13
Provisions at 31 December 2009	10	125

25 OTHER LIABILITIES

	2009 £m	2008 £m
Deposits received from reinsurers	10	76
Derivatives designated as hedging instruments	9	74
Other derivatives used for economic hedging purposes	54	72
Other creditors	472	480
Accruals and deferred income	392	341
Total other liabilities	937	1,043
To be settled within 12 months	713	866
To be settled after 12 months	224	177

In 2003 a subsidiary of the Group wrote an Adverse Development Cover (ADC) contract with its former US subsidiary. The liabilities arising under the ADC contract comprise an insurance component and a deposit component. The liability arising under the insurance component of £0.1bn represents the timing risk on the settlement of those liabilities. The financial liability arising under the deposit component is offset by the value of funds held in a trust fund whose trust deed only permits the trust fund assets to be used to settle amounts due under the ADC. The value of the funds held in trust at 31 December 2009 is £0.4bn and the value of the liability of the deposit component is £0.4bn.

The insurance component is accounted for within insurance liabilities and the deposit component, offset by the value of the funds held in the trust account, is recognised under other liabilities.

26 RETIREMENT BENEFIT OBLIGATIONS

The Group operates defined contribution pension schemes, funded and unfunded defined benefit pension schemes, and has other post retirement obligations.

Defined contribution pension schemes

Costs of £49m (2008: £39m) were recognised in respect of defined contribution schemes by the Group. The Group's Swedish subsidiaries are part of a multi employer defined benefit scheme along with other financial institutions in Sweden. As it is not possible to determine the assets and liabilities in respect of any one employer under this scheme, it is included in these accounts as a defined contribution scheme. Contributions of £9m (2008: £9m) were paid to this scheme during 2009 and are included in the costs shown above. The latest information regarding the funding of this scheme is taken from the interim report for the first half of 2009, when the scheme funding rate was 113% (2008: 119%). The Group's Swedish subsidiaries' share of the total multi employer scheme was less than 2% (2008: less than 2%).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

26 RETIREMENT BENEFIT OBLIGATIONS CONTINUED

Defined benefit pension schemes and other post retirement benefits

The major defined benefit pension schemes are located in the UK. The assets of these schemes are held mainly in separate trustee administered funds.

In April 2002, the primary UK defined benefit schemes were effectively closed to new entrants and in 2005, following discussions with the Trustees and consultation with the members, the UK defined benefit schemes were altered from providing benefits on a final salary basis to benefits on a revalued average salary basis with effect from 1 January 2006. Under the new benefit formula, the accrued benefits of current active members are based on salaries at the date of change and will increase in line with inflation each year (limited to 5% in any year) up to their retirement date. Benefits earned in each year from 1 January 2006 are based on salaries in that year and are revalued up to retirement.

In addition to these changes, the 2002 Scheme (which was the scheme to which new UK employees had been admitted following the closure of the defined benefit schemes to new members) has been closed to further accrual from 1 January 2006. It has been replaced by a stakeholder arrangement and members of the 2002 Scheme and future new employees in the UK accrue future benefits on a defined contribution basis under the stakeholder scheme.

During the year the Group entered into arrangements that insured 55% of the retirement obligations relating to pensions in payment in the two main UK schemes. The arrangements comprise of assets and interest rate swaps combined with an insurance contract that provide for the full payment of the pensions in return for the actual investment return on a segregated portfolio of assets held by the pension funds at the inception of the arrangement. The pension schemes continue to benefit from the assets held in the portfolio and retain the obligation to meet the insured pension obligations. The assets and pension obligations are therefore not derecognised in the financial statements and an asset (representing the recovery of the insured pension obligations) and a liability (to pay the investment return on the portfolio of assets to the insurer) are recognised.

For the two main UK defined benefit schemes, the level of contributions in 2009 were **23%** and **22%** of pensionable salaries (2008: 23% and 22%). Additional contributions totalling **£45m** (2008: £38m) were made to the schemes, in accordance with the plan to reduce their funding deficits. Expected contributions to pension and post retirement benefit schemes for the year ending 31 December 2010 are approximately **£67m**, including a further **£31m** of additional contributions.

The major defined benefit schemes are subject to regular valuation using the projected unit method which is the basis used to determine the pension cost in the consolidated income statement. Independent, qualified actuaries carry out valuations of the major defined benefit schemes for the purposes of assessing pension costs.

The Group also provides post retirement healthcare benefits to certain current and retired Canadian employees. The benefits are not prefunded. Life insurance benefits, which provide varying levels of coverage, are provided at no cost to retirees. Healthcare benefits, which also provide varying levels of coverage, require retiree contributions in certain instances. Benefits are generally payable for life. The estimated discounted present values of the unfunded accumulated obligations are calculated in accordance with the advice of independent, qualified actuaries.

Movement in surplus/(deficit) during the year

	2009 £m	2008 £m
Surplus at 1 January	506	158
Total pension expense	(45)	(52)
Employer contribution	130	123
Actuarial (losses)/gains	(962)	287
Exchange adjustment	3	(10)
Pension and post retirement (deficit)/surplus	(368)	506
Deferred tax in respect of net pension and post retirement liability/(asset)	106	(143)
Net pension and post retirement (deficit)/surplus at 31 December	(262)	363

The amounts recognised in the income statement are as follows

	2009			2008
	UK £m	Other £m	Total £m	Total £m
Current service cost	29	8	37	48
Interest cost	257	20	277	280
Expected return on scheme assets	(252)	(16)	(268)	(299)
Past service cost	16	–	16	23
Gains on curtailment	–	(17)	(17)	–
Total (included in staff costs)	50	(5)	45	52

The actuarial gains/(losses) recognised in equity are as follows

	2009			2008
	UK £m	Other £m	Total £m	Total £m
Actual return on scheme assets	(161)	40	(121)	(114)
Less expected return on scheme assets	(252)	(16)	(268)	(299)
Actual return on assets (below)/in excess of expectations	(413)	24	(389)	(413)
Experience gains/(losses) on liabilities	114	2	116	(101)
Change in actuarial assumptions	(644)	(45)	(689)	801
Actuarial (losses)/gains	(943)	(19)	(962)	287

The accumulated actuarial losses since 1 January 2004 are £613m (2008 £349m gains)

Excluding the pension liabilities covered by the insurance arrangement and the assets and liabilities committed to the arrangement, the value of scheme assets and the residual scheme obligations are as follows

	2009			2008
	UK £m	Other £m	Total £m	Total £m
Present value of obligations not covered by insurance arrangement	3,399	343	3,742	4,536
Equities	1,351	157	1,508	1,173
Bonds	1,460	126	1,586	3,453
Cash	145	4	149	71
Property and other	131	–	131	345
Total assets in the schemes (excluding those used to fund insurance arrangement)	3,087	287	3,374	5,042
(Deficit)/surplus	(312)	(56)	(368)	506

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

26 RETIREMENT BENEFIT OBLIGATIONS CONTINUED

Including the pension liabilities covered by the insurance arrangement and the assets and liabilities committed to the arrangement, the value of scheme assets and the residual scheme obligations are as follows

	2009			2008
	UK £m	Other £m	Total £m	Total £m
Present value of funded obligations	4,831	252	5,083	4,461
Present value of unfunded obligations	4	91	95	75
Present value of obligations	4,835	343	5,178	4,536
Equities	1,351	157	1,508	1,173
Bonds	3,288	126	3,414	3,453
Cash	154	4	158	71
Property and other	131	–	131	345
Present value of funded obligations fully covered by insurance arrangement	1,436	–	1,436	–
Value of obligations under insurance arrangement	(1,837)	–	(1,837)	–
Total assets in the schemes	4,523	287	4,810	5,042
(Deficit)/surplus	(312)	(56)	(368)	506
Defined benefit pension schemes	(312)	(18)	(330)	530
Other post retirement benefits	–	(38)	(38)	(24)
Schemes in surplus (note 16)	3	36	39	602
Schemes in deficit (note 24)	(315)	(92)	(407)	(96)

The following is a reconciliation of the Group's retirement benefit obligations

	2009 £m	2008 £m
Retirement benefit obligations at 1 January	4,536	5,086
Current service costs	37	48
Past service costs	16	23
Interest costs	277	280
Contributions by scheme participants	2	2
Actuarial loss/(gain) on obligations	573	(700)
Gain on curtailments	(17)	–
Benefits paid	(251)	(242)
Acquisition of subsidiaries	–	2
Exchange adjustment	5	37
Retirement benefit obligations at 31 December	5,178	4,536

The following is a reconciliation of the Group's pension schemes' assets

	2009 £m	2008 £m
Pension schemes' assets at 1 January	5,042	5,244
Return on schemes' assets	(121)	(114)
Contributions by the employer	130	123
Contributions by schemes' participants	2	2
Benefits paid	(251)	(242)
Acquisition of subsidiaries	–	2
Exchange adjustment	8	27
Pension schemes' assets at 31 December	4,810	5,042

Additional information for the current annual period and previous four annual periods

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
At 31 December					
Present value of defined benefit obligation	5,178	4,536	5,086	4,838	5,439
Fair value of plan assets	4,810	5,042	5,244	4,870	4,967
Deficit/(surplus)	(368)	506	158	32	(472)
Experience adjustments on schemes liabilities	116	(101)	(78)	42	(50)
Experience adjustments on schemes assets	(389)	(413)	89	(14)	434

Assumptions

The principal actuarial assumptions used are as follows

	UK		Other	
	2009 %	2008 %	2009 %	2008 %
Assumptions used in calculation of retirement benefit obligation				
Discount rate	5.8	6.2	6.2	6.5
Annual rate of general inflation	3.3	2.8	2.1	2.0
Annual rate of increase in salaries	4.8	4.3	4.2	3.9
Annual rate of increase in pensions	3.1	2.8	2.1	2.0
Assumptions used in calculation of income statement credit/charge in the year				
Discount rate	6.2	5.6	6.5	5.4
Expected return on				
Equities	7.5	7.5	8.3	8.3
Bonds	4.9	5.0	5.3	5.3
Other	4.0	6.5	3.5	3.5

Expected return on schemes' assets

The weighted average expected return on schemes' assets across the Group for 2009 was 5.5% (2008 5.7%). The expected return on schemes' assets are determined for each asset class by considering both market conditions at the beginning of the reporting period and any expectations for longer term changes in current returns. All returns are net of investment expenses.

Mortality rate

The mortality assumptions are set following investigations of the main schemes' recent experience by the schemes' actuaries for the funding valuations. In 2009 the mortality assumptions adopted for the main UK schemes used the SAPS Light Normal base table with percentage adjustments to reflect the schemes' recent experience compared with that expected under these tables.

Reductions in future mortality rates are allowed for by using 80% (males) and 60% (females) of the long cohort improvements. The weighted average assumptions imply that a current pensioner aged 60 has an expected future lifetime of 27.5 years (males) and 28.1 years (females) and a future pensioner aged 60 in 15 years time has a future expected lifetime from age 60 of 28.2 years (males) and 28.6 years (females).

In 2008 the mortality assumptions adopted for the main UK schemes used the PMA92 and PFA92 mortality tables for males and females respectively, with age ratings to reflect the schemes' recent experience compared with that expected under these tables. Reductions in future mortality rates are allowed for using the 'medium cohort' projection and using the projected mortality rates applicable to calendar year 2014 for current pensioners and 2032 for future pensioners. The weighted average assumptions imply that a current pensioner aged 60 has an expected future lifetime of 25.8 years (males) and 27.0 years (females) and a future pensioner aged 60 in 15 years time has a future lifetime of 27.2 years (males) and 28.2 years (females).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

26 RETIREMENT BENEFIT OBLIGATIONS CONTINUED

Commutation

Each of the UK defined benefit pension schemes has changed its rules to allow for increased commutation following 'A day' in April 2006. The commutation factors are broadly cost neutral (i.e. when valued on the IAS 19 basis, the amount of cash taken is approximately equal to the value of the pension being given up). For this reason there is no change made to previous practice whereby the accounting valuation makes no allowance for commutations.

Post retirement medical benefits

The valuation of liabilities for non pension post retirement liabilities in Canada assumes health care cost trend rates of **4.5%** per annum for hospital other medical and vision care, **4.0%** per annum for dental, and **9.0%** per annum in 2009 grading down to **4.5%** per annum in and after 2029 for prescription drugs (2008: 7% decreasing to 5% in 2017).

Sensitivity analysis

The discount rate, the assumed inflation rate and the mortality assumptions all have a significant effect on the IAS 19 accounting valuation. A 0.1% increase in the discount rate would reduce the defined benefit obligations in the UK not covered by the insurance arrangement by **£49m**. A 0.1% increase in the inflation rate assumption would increase the defined benefit obligations in the UK not covered by the insurance arrangement by **£43m**. An increase of one year in life expectancy would increase the defined benefit obligations in the UK not covered by the insurance arrangement by approximately **£68m**.

The effect of an increase of one percentage point and the effect of a decrease of one percentage point in the assumed medical cost trend rates in Canada on the following is set out below:

	1% increase		1% decrease	
	2009 £m	2008 £m	2009 £m	2008 £m
Aggregate of the current service cost and interest components of net periodic post employment medical costs	0.4	0.5	0.3	0.4
Accumulated post employment benefit obligation for medical costs	5.4	3.5	4.3	2.8

27 SHARE BASED COMPENSATION

The Group has five types of share based payment plans which are settled in the form of ordinary shares: the Executive Share Option Scheme, the Sharesave Plan, the Share Matching Plan, the Long Term Incentive Plan and the Sharebuild Plan. Dilution levels for all schemes are held strictly within Association of British Insurers limits.

The total employment cost recorded in the income statement for all plans was **£27m** in 2009 (2008: £25m).

Executive Share Option Scheme

The Group operates an Executive Share Option Scheme, which provides options to purchase ordinary shares to officers and other key employees at prices not less than the fair value of the ordinary shares at the date of grant.

The performance conditions in respect of awards under the Executive Share Option Scheme are described on page 63. The exercise price of all options is the fair value of the ordinary shares on the date of grant. All options expire 10 years after the date of the grant.

Additional information with respect to the Executive Share Option Scheme at 31 December is as follows

	2009		2008	
	Number of shares	Weighted average exercise price*	Number of shares	Weighted average exercise price*
Options outstanding at 1 January	37,114,422	143.84	53,633,132	139.01
Exercised	(4,474,413)	87.01	(13,230,719)	83.46
Forfeited	(3,006,875)	204.44	(1,111,080)	197.77
Expired	(1,137,358)	395.94	(2,176,911)	364.25
Options outstanding at 31 December	28,495,776	136.31	37,114,422	143.84

*Sterling (pence)

The following share options under the Executive Share Option Scheme are outstanding and exercisable at 31 December

Range of exercise prices	2009			2008		
	Number of shares	Weighted average remaining contractual life (years)	Weighted average exercise price*	Number of shares	Weighted average remaining contractual life (years)	Weighted average exercise price*
50.1 – 100.0	20,730,559	4.70	79.42	26,492,486	5.79	80.38
100.1 – 150.0	1,046,577	3.42	114.05	1,625,681	4.89	114.41
200.1 – 250.0	2,192,399	2.19	234.23	2,386,015	3.19	234.23
250.1 – 300.0	1,357,210	0.23	278.65	1,473,816	1.23	278.65
300.1 – 350.0	61,819	1.88	312.58	61,819	2.88	312.58
350.1 – 400.0	2,158,794	1.18	380.15	2,359,726	2.18	380.16
400.1 – 450.0	948,418	1.19	407.88	2,714,879	1.14	418.94
	28,495,776	3.85	136.31	37,114,422	4.83	143.84

*Sterling (pence)

No awards have been granted since 2006. The weighted average share price on the dates the options were exercised in 2009 was 115.44p (2008: 147.57p)

Sharesave Plan

Under the Group's Sharesave Plan (savings related) eligible employees can receive options to purchase ordinary shares at a price equal to 80% of the fair value of the ordinary shares on the date of grant. All options vest either three or five years from the grant date and expire six months after vesting. The number of shares available for purchase from the plan by each participant is limited to the whole number of shares purchasable from the aggregate value of the individual's savings contract upon maturity. An individual's maximum monthly contribution to all current savings contracts is £250.

Additional information with respect to the Sharesave Plan at 31 December is as follows.

	2009		2008	
	Number of shares	Weighted average exercise price*	Number of shares	Weighted average exercise price*
Options outstanding at 1 January	57,415,366	95.42	62,307,155	84.59
Granted	15,534,979	97.00	13,932,736	117.00
Exercised	(12,199,532)	73.80	(13,497,523)	71.76
Forfeited	(2,095,357)	101.77	(2,333,568)	85.21
Expired	(398,625)	93.44	(915,562)	81.35
Cancelled	(3,180,333)	99.39	(2,077,872)	86.84
Options outstanding at 31 December	55,076,498	100.20	57,415,366	95.42

*Sterling (pence)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

27 SHARE BASED COMPENSATION CONTINUED

The following share options under the Sharesave Plan are outstanding as of 31 December

Range of exercise prices	2009			2008		
	Number of shares	Weighted average remaining contractual life (years)	Weighted average exercise price*	Number of shares	Weighted average remaining contractual life (years)	Weighted average exercise price*
50.1 – 100.0	24,375,140	2.31	87.19	20,541,037	0.99	68.73
100.1 – 150.0	30,701,358	1.87	110.53	36,874,329	2.77	110.29
	55,076,498	2.06	100.20	57,415,366	2.13	95.42

*Sterling (pence)

The following share options under the Sharesave Plan are exercisable as of 31 December

Range of exercise prices	2009		2008	
	Number of shares	Weighted average exercise price*	Number of shares	Weighted average exercise price*
50.1 – 100.0	3,036,568	59.61	2,145,334	75.00
100.1 – 150.0	2,332,384	112.93	–	–
	5,368,952	82.77	2,145,334	75.00

*Sterling (pence)

Under the Sharesave Plan, the weighted average estimated fair value per option granted by the Parent Company during 2009 was **33.55p** (2008: 42.31p). The fair value of share options granted under the Sharesave Plan during 2009 was **£5m** (2008: £6m). The value of the awards is charged in the income statement over the vesting period. The weighted average share price on the dates the options were exercised in 2009 was **133.66p** (2008: 147.21p).

Fair values for the options granted under the Sharesave Plan were estimated as of the date of grant using the Black Scholes pricing model with the following weighted average assumptions: dividend yields of **6.0%** (2008: 5.7%), expected volatilities of **37%** (2008: 30%), ordinary share price of **123.50p** (2008: 158.10p), risk-free interest rates of **2.2%** (2008: 4.3%), and expected terms equal to the vesting terms of three or five years. An estimate based on past experience is made of the number of forfeitures during the vesting period due to employees leaving the Group. The actual share price at 31 December 2009 was **120.60p** (2008: 138.10p). The expected volatility is determined by reference to the actual volatility of the share price over the appropriate term ending on the grant date.

Share Matching Plan

The Group's Share Matching Plan for executive directors and other selected executives was adopted following approval obtained at the 2004 AGM. Awards were made between 2004 and 2006.

The performance conditions in respect of awards under the Share Matching Plan are described in the footnote to the long term incentive schemes table (audited part) on page 66. Under the plan, Deferred Share awards granted are held in trust for three years and are normally forfeited upon an employee leaving the Group. No further performance conditions apply.

Participants may also receive Matching Share awards up to a maximum of three times the number of Deferred Shares awarded. Matching Share awards are subject to the achievement of total shareholder return targets over a single two year period, with performance measured by comparison against other UK listed companies. Matching Share awards vest with the Deferred Share awards on the third anniversary of the date of grant to the extent that the performance conditions have been met.

Further information on the Share Matching Plan may be found in the footnote to the long term incentive scheme table (audited part) on page 66.

Additional information with respect to Deferred and Matching Share awards at 31 December is as follows

	2009 Number of shares	2008 Number of shares
Outstanding and exercisable Deferred Share awards at 1 January	926,431	2,992,113
Exercised	(702,691)	(1,753,046)
Forfeited	–	(312,636)
Outstanding and exercisable Deferred Share awards at 31 December	223,740	926,431
Potential Matching Share awards	671,220	2,412,825
Total potential share awards outstanding at 31 December	894,960	3,339,256

Long Term Incentive Plan

The Long Term Incentive Plan for executive directors and other selected executives was adopted following approval obtained at the 2006 AGM. Awards have been made each year since 2006 following shareholder approval.

The structure of the plan allows for a number of different types of awards to be made. Voluntary Deferred Shares are purchased by participants from net bonus payable (limited to a maximum value of 33% of net bonus), in addition, for senior executives, the Remuneration Committee may defer a portion of an individual's gross bonus (limited to 33% of that bonus) into an award over shares referred to for the purpose of the plan as Compulsory Deferred Shares. Voluntary Deferred Shares are held in trust for three years. Compulsory Deferred Shares awards are normally forfeited on an employee leaving the Group. No further performance conditions apply. The Remuneration Committee may make a conditional award of shares on a 'matched' basis to Voluntary and Compulsory Deferred Shares ('Matching Shares') up to a maximum of 25% and these are normally forfeited on an employee leaving the Group.

Additionally, the Remuneration Committee may make conditional awards of Performance Shares to senior executives and conditional awards of Restricted Shares to other executives and senior managers.

Awards of Performance Shares and Matching Shares related to Compulsory Deferred Shares are subject to a performance condition consisting of a combination of a return on equity target and a total shareholder return target (with performance measured by comparison against other European insurance companies) over a single three year performance period. Matching Shares related to Voluntary Deferred Shares are subject only to the return on equity performance condition. Restricted Shares are not subject to performance conditions. All awards vest on the third anniversary of the date of grant to the extent that the performance conditions have been met. Performance Shares and Restricted Shares are normally forfeited on an employee leaving the Group.

Further information on the Long Term Incentive Plan can be found in the remuneration report within the governance section in these annual report and accounts.

	2009				
	Restricted Shares	Voluntary Deferred Shares	Compulsory Deferred Shares	Performance Shares	Total
Share awards outstanding at 1 January	11,828,733	2,343,040	5,140,097	15,137,344	34,449,214
Granted	3,669,375	1,013,127	2,311,079	7,512,814	14,506,395
Exercised	(3,114,875)	(663,031)	(1,331,692)	(4,026,292)	(9,135,890)
Forfeited	(1,561,298)	–	(403,060)	(1,522,590)	(3,486,948)
Expired	(13,674)	–	–	(236)	(13,910)
Share awards outstanding 31 December	10,808,261	2,693,136	5,716,424	17,101,040	36,318,861
Potential Matching Shares awards	–	11,235,958	13,620,714	–	24,856,672
Total potential share awards outstanding 31 December	10,808,261	13,929,094	19,337,138	17,101,040	61,175,533

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

27 SHARE BASED COMPENSATION CONTINUED

	2008				
	Restricted Shares	Voluntary Deferred Shares	Compulsory Deferred Shares	Performance Shares	Total
Share awards outstanding at 1 January	8,063,261	1,372,433	3,102,956	9,274,148	21,812,798
Granted	4,061,147	1,027,843	2,083,620	5,933,652	13,106,262
Exercised	–	(57,236)	–	–	(57,236)
Forfeited	(295,675)	–	(46,479)	(70,456)	(412,610)
Share awards outstanding 31 December	11,828,733	2,343,040	5,140,097	15,137,344	34,449,214
Potential Matching Shares awards	–	10,148,444	12,850,187	–	22,998,631
Total potential share awards outstanding 31 December	11,828,733	12,491,484	17,990,284	15,137,344	57,447,845

Under the Long Term Incentive Plan, the weighted average estimated fair value of each Restricted Share award granted by the Parent Company in 2009 was **101 81p** (2008 116 68p). The weighted average estimated fair value of each Voluntary Deferred Share award was **£nil** (2008 £nil) and the weighted average estimated fair value of each potential associated Matching Share was **121 00p** (2008 136 50p). The weighted average estimated fair value of each Compulsory Deferred Share award was **121 00p** (2008 136 50p) and the weighted average estimated fair value of each potential associated Matching Share was **84 35p** (2008 91 40p). The weighted average estimated fair value of each Performance Share award granted was **99 04p** (2008 92 03p). The total fair value of the awards granted under the plan in 2009 was **£24m** (2008 £24m).

Fair values of the awards granted under the Long Term Incentive Plan scheme during 2009 are taken to be the share price on the day preceding the grant date, except for the Restricted Shares where the share price is reduced by an estimate of the value of dividends that will not be received. A dividend yield of **6 0%** (2008 5 7%) was assumed. Market related performance criteria were based on an arithmetic mean estimate of performance against a specified group of 13 competitors and it is assumed that all non market related performance criteria would be met such that all awards would be exercisable. An estimate based on past experience is made of the number of forfeitures during the vesting period due to employees leaving the Group.

Sharebuild

Sharebuild (a HMRC approved Share Incentive Plan) was adopted by shareholders at the 2009 AGM and launched in August 2009 with the first Partnership Shares purchased in December 2009. Sharebuild is available to all UK based employees employed at 30 June each year. In 2009 one Matching Share was allotted and held in trust for every one Partnership Share acquired with participants' contributions. The total potential share awards issued during the year and outstanding at 31 December 2009 is **126,682** shares.

Under the Sharebuild plan, the weighted average estimated fair value of each Matching Share award granted by the Company in 2009 was **98 80p**. The total fair value of the awards granted under the plan in 2009 is insignificant.

Other share based payments

Certain employees of the Group's former US operation held entitlements under the Equity Incentive Scheme for US Employees prior to the disposal of the operation. On disposal of the US operation the options under the scheme became cash settled and the majority of the options vested. There are also other plans under which awards have been granted to certain employees in the form of cash settled share based awards. Under these plans, if the vesting conditions are satisfied, cash awards are made based upon the underlying performance of the Parent Company's ordinary shares. Awards were made in 1999 and 2001 under old schemes and during 2004 and 2005 on terms that provide the same potential benefits as the Share Matching Plan. The liability in respect of these plans at 31 December 2009 was **£1m** (2008 £1m). The intrinsic value of awards that had vested at 31 December 2009 was **£1m** (2008 £1m).

28 HEDGE ACCOUNTING

The Group designates certain forward exchange contracts as hedging instruments against the net investment in designated subsidiaries to reduce the foreign currency exchange risk exposure. On designation, the interest element is separated from the forward exchange rate and is excluded from the hedge relationship. Effectiveness of the hedge is then measured using the spot rate, which is also the exchange rate used when measuring the net investment in the designated subsidiaries. The fair value of the hedging instruments at 31 December 2009 is a liability of **£9m** (2008 £74m). The hedge ineffectiveness recognised in the income statement during 2009 is **£nil** (2008 £nil).

Further information on derivatives, including those designated as hedging instruments, can be found in the risk management section

Until its repayment in October 2009, the Group designated the loan capital denominated in Euros as a hedging instrument against the net investment in designated subsidiaries to reduce the foreign currency exchange risk. The book value and the fair value of the hedging instrument at 31 December 2008 were £481m and £459m respectively. The hedge ineffectiveness recognised in the income statement during 2009 is £nil (2008: £nil).

29 SUBSIDIARIES

Country of incorporation		Principal activity
United Kingdom	Royal Insurance Holdings plc (note 1)	Holding company
	Royal & Sun Alliance Insurance plc	General insurance
	British Aviation Insurance Company Limited (57.1%)	General insurance
	The Globe Insurance Company Limited	General insurance
	The Marine Insurance Company Limited	General insurance
	Royal International Insurance Holdings Limited	General insurance
	Royal & Sun Alliance Reinsurance Limited	General insurance
	Sun Alliance and London Insurance plc	General insurance
	Sun Insurance Office Limited	General insurance
Argentina	Royal & Sun Alliance Seguros (Argentina) SA	General insurance
Bahrain	Royal & Sun Alliance Insurance (Middle East) Limited EC (50.0%)	General insurance
Brazil	Royal & Sun Alliance Seguros (Brazil) SA	General insurance
Canada	Roins Financial Services Limited	Holding company
	Quebec Assurance Company	General insurance
	The Johnson Corporation	Holding company
	Royal & Sun Alliance Insurance Company of Canada	General insurance
	Western Assurance Company	General insurance
	Canadian Northern Shield Insurance Company	General insurance
Chile	RSA Seguros (Chile) SA (99.4%)	General insurance
China	Sun Alliance Insurance (China) Limited	General insurance
Colombia	Royal & Sun Alliance Seguros (Colombia) SA (86.7%)	General insurance
Denmark	Codan A/S	Holding company
	Codan Forsikring A/S	General insurance
Guernsey	Insurance Corporation of the Channel Islands Limited	General insurance
Isle of Man	Tower Insurance Company Limited	General insurance
Mexico	Royal & Sun Alliance Seguros (Mexico) SA de CV	General insurance
Netherlands	RSA Overseas (Netherlands) BV	Holding company
	RSA Overseas Holdings BV	Holding company
	Intouch Insurance Group BV	Holding company
Netherlands Antilles	Royal & Sun Alliance Insurance (Antilles) NV (51.0%)	General insurance
Norway	Duborgh Skadeforsikring A/S	Insurance Brokerage
	White Label Holding A/S	Holding company
Poland	Link4 Towarzystwo Ubezpieczen SA	General insurance
Republic of Ireland	RSA Insurance Ireland Limited	General insurance
Sweden	Trygg-Hansa Forsakrings AB Publikt	General insurance
Uruguay	Royal & Sun Alliance Seguros (Uruguay) SA	General insurance

Notes

1 100% direct subsidiary of RSA Insurance Group plc

2 Except where indicated all holdings are of equity shares and represent 100% of the nominal issued capital. In all cases the proportion of voting power held equals the proportion of ownership interest.

3 Some subsidiaries have been omitted from this statement to avoid providing particulars of excessive length but none materially affects the results or assets of the Group.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

30 BUSINESS COMBINATIONS

Acquisition of subsidiaries

On 8 April 2009 the Group also acquired 100% of the share capital of Benchmark Underwriting Limited in Ireland. On 15 June 2009 the Group acquired the remaining 50% of the share capital of Intouch Insurance Group BV (Intouch). On 1 July 2009 the Group acquired 100% of Atrens Counsel Insurance Brokers Incorporated and also made a number of other smaller acquisitions in Canada during the period. The total consideration was **£104m** and goodwill of **£154m** arose after taking into account goodwill arising from purchases in earlier years.

	£m
Investments	42
Intangible assets (excluding goodwill)	45
Cash and cash equivalents	4
Other assets	45
Insurance contract liabilities	(74)
Other liabilities	(43)
Net assets	19
Cash consideration including acquisition costs	104
Goodwill on acquisitions in 2009	85
Goodwill arising from purchases in earlier years	69
Goodwill on acquisitions	154

The goodwill arising from purchases in earlier years includes the goodwill arising on the acquisition of the original 50% shareholding of Intouch in 2007.

Fair value adjustments to the book value of the net assets of the subsidiaries acquired immediately before the combinations resulted in the recognition of **£33m** of intangible assets. The intangible assets recognised as a result of the combinations consist of a brand and customer lists.

If the acquisitions had occurred on 1 January 2009, Group net written premiums for the year would have increased by **£38m** and the Group's profit after tax would have decreased by **£13m**. The total loss after tax of the acquired entities since the acquisition dates included in the Group's profit for the period is **£9m**.

Goodwill is individually assessed on each acquisition. The goodwill on the acquisition of Intouch arose from the premium paid for acquiring market leading businesses in direct insurance in Poland, Russia and the Czech Republic, their future growth opportunities, and for acquiring the skilled workforce to drive future profitability in these markets. The goodwill in Canada and Ireland arose from the premium paid for strengthening the Group's market position in targeted business segments and acquiring the skilled workforce to drive future profitability in those segments. Goodwill also represents the future cost saving from expected synergies and economies of scale.

31 CASHFLOWS FROM OPERATIONS

	2009 £m	2008 £m
Net profit for the year before tax	554	759
Adjustments for:		
Depreciation	34	35
Amortisation	73	74
Fair value losses (including loss on disposal) on property and equipment	1	1
Fair value gains (including gain on disposal) on investments	(42)	(187)
Fair value (gains)/losses (including loss on disposal) on investment property	(7)	95
Impairment charge on available for sale financial assets	62	61
Share of loss from associates	18	18
Loss/(profit) on disposal of subsidiaries	7	(18)
Foreign exchange loss/(gain)	3	(152)
Amortisation of available for sale investments	34	(2)
Other non cash movements	118	368
Changes in operating assets/liabilities		
Movement in technical provisions		
Unearned premiums	(16)	104
Losses and loss adjustment expenses	(331)	(47)
Movement in working capital	25	(360)
Movement in deferred acquisition costs	(19)	(65)
Reclassification of interest received	(515)	(547)
Cashflows from operations	(1)	137

32 RELATED PARTY TRANSACTIONS

The ultimate Parent Company of the Group is RSA Insurance Group plc which is incorporated in Great Britain and registered in England and Wales

The following transactions were carried out with related parties

Key management compensation

	2009 £m	2008 £m
Salaries and other short term employee benefits	5	5
Bonus awards	4	4
Pension benefits	1	1
Share based awards	8	6
Total	18	16

A number of the directors, other key managers, their close families and entities under their control have general insurance policies with subsidiary companies of the Group. Such policies are on normal commercial terms except that executive directors and key managers are entitled to special rates which are also available to other members of staff.

As at 31 December 2009, there are interest free loans totalling £10,000 (2008: £5,000) outstanding to two members of the key management team under standard terms of the Group's UK Car Ownership Scheme which is open to all UK managers within a qualifying salary band.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

33 COMMITMENTS

Capital commitments

The Group's significant capital commitments in respect of property and equipment and intangible assets are detailed in the table below

	2009 £m	2008 £m
Property and equipment	4	5
Intangible assets	68	15
Total	72	20

Financial instrument commitments

The Group has a number of guarantees and commitments

Bank loan guarantees

In Canada, the Group guarantees outstanding loan repayments in the event of bank loan default by broker subsidiaries and special relationship brokers. The bank loan guarantees amount in total to £10m (2008: £11m) and have a term of up to 10 years. It is not anticipated that any of the brokers will default, and full recourse is available on any default.

Operating lease commitments

The Group leases various outlets and offices under non cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

Operating lease commitments where the Group is the lessee

The future aggregate minimum lease payments under non cancellable operating leases are as follows

	Land and buildings		Other	
	2009 £m	2008 £m	2009 £m	2008 £m
One year or less	62	65	2	2
Between one and five years	188	214	4	3
After five years	87	111	—	—
	337	390	6	5
Recoveries under sub tenancies	(44)	(58)	—	—
Total	293	332	6	5

Operating lease commitments where the Group is the lessor

The future aggregate minimum lease payments under non cancellable operating leases are as follows

	Land and buildings	
	2009 £m	2008 £m
One year or less	25	27
Between one and five years	84	85
After five years	103	109
Total	212	221

34 ASSETS AND LIABILITIES HELD FOR SALE

During 2009 the Group has classified one of its subsidiaries within the UK operating segment, British Engine Limited, as a disposal group. The sale of the company has been agreed, subject to regulatory approval and the Group expects to complete the sale within one year. A provision for a pre-tax loss of £7m has been recognised on reclassification. No gain or loss has been recognised in the income statement since reclassification.

The Group has classified office property within the UK and Scandinavian operating segments as assets held for sale. The Group is actively marketing the properties. No gain or loss has been recognised in the income statement since the reclassification.

The analysis of the non current and disposal group assets and liabilities held for sale is as follows:

	2009 £m	2008 £m
Assets		
Property and equipment	11	3
Total investments	35	—
Reinsurers' share of insurance contract liabilities	39	—
Insurance and reinsurance debtors	7	—
Cash and cash equivalents	109	—
Total assets	201	3
Liabilities		
Insurance contract liabilities	146	—
Insurance and reinsurance liabilities	9	—
Other liabilities	8	—
Total liabilities	163	—

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF RSA INSURANCE GROUP PLC

We have audited the Parent Company financial statements of RSA Insurance Group plc for the year ended 31 December 2009 which comprise the Parent Company statement of financial position, the Parent Company statement of comprehensive income, the Parent Company statement of changes in equity, the Parent Company statement of cashflows and the related notes 1 to 10. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

This report is made solely to the Parent Company's members as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Parent Company's members those matters we are required to state to them in an 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 Parent Company and the Parent Company's members as a body for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Parent Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion of financial statements

In our opinion the Parent Company financial statements

- Give a true and fair view of the state of the Parent Company's affairs as at 31 December 2009 and of its profit for the year then ended
- Have been properly prepared in accordance with IFRS as adopted by the European Union
- Have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters prescribed by the Companies Act 2006

In our opinion

- The information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the Parent Company financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us or
- The Parent Company financial statements are not in agreement with the accounting records and returns or
- Certain disclosures of directors' remuneration specified by law are not made or
- We have not received all the information and explanations we require for our audit

Other matters

We have reported separately on the consolidated financial statements of RSA Insurance Group plc for the year ended 31 December 2009.

G. Richardson

Graham Richardson (Senior Statutory Auditor)

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditors

London, UK

24 February 2010

PARENT COMPANY STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2009

	2009 £m	2008 £m
Fair value losses net of tax	(672)	(763)
Profit for the year net of tax	345	483
Total recognised expense for the year	(327)	(280)

The profit for the year net of tax includes a tax charge of £12m (2008 £3m). There is no tax relating to fair value gains.

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2009

	Ordinary share capital £m	Ordinary share premium £m	Preference shares £m	Revaluation reserves £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2008	895	943	125	3,025	8	422	5,418
Total comprehensive (expense)/ income for the year	–	–	–	(763)	–	483	(280)
Dividends – paid (note 7)	–	–	–	–	–	(246)	(246)
Issued by scrip	14	51	–	–	–	–	65
Issued for cash (note 4)	6	13	–	–	–	–	19
Share based payments	–	–	–	–	–	25	25
Balance at 31 December 2008	915	1,007	125	2,262	8	684	5,001
Total comprehensive (expense)/ income for the year	–	–	–	(672)	–	345	(327)
Dividends – paid (note 7)	–	–	–	–	–	(273)	(273)
Issued by scrip	18	60	–	–	–	–	78
Issued for cash (note 4)	4	7	–	–	–	–	11
Share based payments	4	–	–	–	–	24	28
Balance at 31 December 2009	941	1,074	125	1,590	8	780	4,518

The movement in equity for the year net of tax includes a net tax charge of £nil (2008 £nil).

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

PARENT COMPANY STATEMENT OF FINANCIAL POSITION
as at 31 December 2009

	Notes	2009 £m	2008 £m
Assets			
Fixtures and fittings		7	4
Investments	2	4,644	4,824
Amounts owed by subsidiaries	9	1,795	1,961
Current tax assets	6	11	4
Deferred tax assets	6	23	25
Other debtors and other assets	3	5	2
		1,834	1,992
Cash and cash equivalents		1	4
Total assets		6,486	6,824
Equity, reserves and liabilities			
Equity and reserves			
Share capital	4	1,066	1,040
Reserves		2,672	3,277
Retained earnings		780	684
Total equity and reserves		4,518	5,001
Liabilities			
Amounts owed to subsidiaries	9	563	436
Loan capital	5	1,317	1,311
Current tax liabilities	6	2	5
Accruals and other liabilities		86	71
Total liabilities		1,968	1,823
Total equity, reserves and liabilities		6,486	6,824

The attached notes form an integral part of these separate financial statements

The separate financial statements were approved on 24 February 2010 by the Board of Directors and are signed on its behalf by

George Culmer
Chief Financial Officer



PARENT COMPANY STATEMENT OF CASHFLOWS
for the year ended 31 December 2009

	Notes	2009 £m	2008 £m
Cashflows from operations	8	(54)	(87)
Purchase of fixtures and fittings		(3)	(2)
Net movement in amounts owed to/by subsidiaries		211	254
Net cashflows from investing activities		208	252
Proceeds from issue of share capital		11	19
Dividends paid		(195)	(181)
Proceeds from issue of long term borrowings		492	–
Repayment of long term borrowings		(465)	–
Net cashflows from financing activities		(157)	(162)
Net (decrease)/increase in cash and cash equivalents		(3)	3
Cash and cash equivalents at beginning of the year		4	1
Cash and cash equivalents at end of the year		1	4

The attached notes form an integral part of these separate financial statements

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES

RSA Insurance Group plc, domiciled in the United Kingdom is the ultimate Parent Company ('the Company') of the RSA group of companies. The principal activity of the Company is to hold investments in its subsidiaries and the receipt and payment of dividends.

These separate financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

Except where otherwise stated, all figures included in the separate financial statements are presented in millions of Pounds Sterling ('Sterling'), shown as £m, rounded to the nearest million.

In accordance with section 408 of Companies Act 2006, the Company's income statement and related notes have not been presented in these separate financial statements.

The accounting policies that are used in preparation of these separate financial statements are consistent with the accounting policies used in preparation of the consolidated financial statements of RSA Insurance Group plc as set out in those financial statements.

The additional accounting policies that are specific to the separate financial statements of the Company are set out below.

Investment in subsidiaries

The Company accounts for its investments in directly owned subsidiaries as available for sale financial assets, which are included in the accounts at fair value.

Changes in the fair value of the investments in subsidiaries are recognised directly in equity in the statement of comprehensive income. Where there is a decline in the fair value of a directly owned subsidiary below cost, and there is objective evidence that the investment is impaired, the cumulative loss that has been recognised in equity is removed from equity and recognised in the income statement.

Dividend income

Dividend income from investments in subsidiaries is recognised when the right to receive payment is established.

2 INVESTMENTS

	2009 £m	2008 £m
Investments at 1 January – at valuation	4,824	5,587
Additions during the year	492	–
Fair value adjustments	(672)	(763)
Investments at 31 December – at valuation	4,644	4,824

The balance at 31 December comprises:

	2009 £m	2008 £m
Investment in subsidiaries	3,773	4,445
Loans to subsidiaries	871	379
	4,644	4,824

The investments in subsidiaries are recognised in the statement of financial position at fair value measured in accordance with the Company's accounting policies. Fair value of the Company's significant subsidiary is determined by reference to the market value (derived from relevant indices) of the Company's ordinary shares and loan capital instruments at the end of the reporting period, being the most transparent independent available indicator. The market value is adjusted for the fair value of the Company's preference shares, assets and liabilities, excluding directly owned subsidiaries. The adjusting items have been fair valued by determining the present value of future cashflow projections, using an appropriate arms length discount rate. The remaining subsidiaries are held at fair value which has been determined to be net asset value.

The directors believe that the methodology used supports the inclusion of the investments in subsidiaries in the statement of financial position, at the fair values ascribed to them. The market value of the Company's ordinary shares at 31 December 2009 was **120 6p**. A movement of 1% in the share price would have an impact of **£41m** on the fair value.

Full details of the principal subsidiaries of the Company are set out in note 29 to the consolidated financial statements.

3 OTHER DEBTORS AND OTHER ASSETS – TO BE SETTLED WITHIN 12 MONTHS

	2009 £m	2008 £m
Other prepayments and accrued income	1	1
Other debtors	4	1
Total other debtors and other assets	5	2

4 SHARE CAPITAL

Full details of the share capital of the Company are set out in note 18 to the consolidated financial statements.

5 LOAN CAPITAL

Full details of the loan capital of the Company are set out in note 19 to the consolidated financial statements.

6 CURRENT AND DEFERRED TAX

Current tax

	Asset		Liability	
	2009 £m	2008 £m	2009 £m	2008 £m
To be settled within 12 months	11	4	–	–
To be settled after 12 months	–	–	2	5
	11	4	2	5

Deferred tax assets

Deferred tax for the current year is based on a rate of **28.0%** (2008: 28.5%). The following are the major deferred tax assets recognised by the Company and movements during the year:

	Other temporary differences £m	Reclassification of bonds £m	Accelerated capital allowances £m	Total £m
Deferred tax assets at 1 January 2008	2	18	1	21
Credit to income for the year	5	–	1	6
Charge to equity for the year	–	(2)	–	(2)
Deferred tax assets at 31 December 2008	7	16	2	25
Charge to equity for the year	–	(2)	–	(2)
Deferred tax assets at 31 December 2009	7	14	2	23

At the end of the reporting period, the Company has unused tax losses of **£nil** (2008: £7m) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses of **£nil** (2008: £7m) due to the unpredictability of future profit streams.

The aggregate current and deferred tax relating to items that are credited to equity is **£2m** (2008: £2m).

NOTES TO THE SEPARATE FINANCIAL STATEMENTS CONTINUED

7 DIVIDENDS

Full details of the dividends paid and proposed by the Company are set out in note 7 to the consolidated financial statements

8 CASH GENERATED FROM OPERATIONS

	2009 £m	2008 £m
Net profit for the year before tax	333	480
Foreign exchange loss	60	46
Dividends received	(400)	(600)
Changes in operating assets/liabilities	(47)	(13)
Cashflows from operations	(54)	(87)

9 RELATED PARTY TRANSACTIONS

RSA Insurance Group plc (incorporated in Great Britain and registered in England and Wales) is the ultimate Parent Company of the RSA group of companies

The following transactions were carried out with related parties

Provision of services and benefits

RSA Insurance Group plc provides services and benefits to its subsidiary companies operating within the UK and overseas as follows

- Provision of technical support in relation to risk management, information technology and reinsurance services. Services are charged for annually on a cost plus basis, allowing for a margin of 5% (2008: 5%)
- Issue of share options and share awards to employees of subsidiaries. Costs are charged for annually, based on the underlying value of the awards granted calculated in accordance with the guidance set out within IFRS 2

Key management compensation

	2009 £m	2008 £m
Salaries and other short term employee benefits	5	5
Bonus awards	4	4
Pension benefits	1	1
Share based awards	8	6
Total	18	16

There are no employees with employment contracts with the Company. All employees are employed by subsidiary companies.

A number of the directors, other key managers, their close families and entities under their control have general insurance policies with subsidiary companies of the Group. Such policies are on normal commercial terms except that executive directors and key managers are entitled to special rates which are also available to other members of staff.

As at 31 December 2009, there are interest free loans totalling £10,000 (2008: £5,000) outstanding to two members of the key management team under standard terms of the Group's UK Car Ownership Scheme, which is open to all UK managers within a qualifying salary band.

Other transactions

Year end balances with related parties are set out below:

	2009 £m	2008 £m
Receivable from related parties		
Receivable from subsidiaries, interest bearing loans	1,401	1,595
Receivable from subsidiaries, non interest bearing	394	366
Total receivable from related parties	1,795	1,961
Payable to related parties		
Payable to subsidiaries, interest bearing loans	442	345
Payable to subsidiaries non interest bearing	121	91
Total payable to related parties	563	436

Interest is charged on interest bearing loans, which are repayable on 24 hours written notice, at three months LIBOR plus 0.6%

Additional loans to subsidiaries of £871m (2008 £379m) as disclosed within note 2 have been made. Of this £294m (2008 £294m) £78m (2008 £78m) and £492m (2008 £nil) are subordinated loans on which interest is charged at 8.5%, 6.701% and 9.375% respectively with the remaining loan balance interest free with no specified repayment date.

Royal & Sun Alliance Insurance plc (RSAI), a subsidiary of the Company, has provided guarantees to the Company's creditors for amounts arising from its loan capital agreements (as set out in note 19 to the consolidated financial statements) and for amounts arising from its committed credit facilities (as set out in note 22 to the consolidated financial statements). The guarantees relating to the loan capital agreements are subordinated to all other creditors of RSAI.

10 SHARE BASED PAYMENTS

Full details of share based payment plans are provided in note 27 to the consolidated financial statements.

SHAREHOLDER INFORMATION

Registered Office and Group Corporate Centre

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

Company website

The Annual Report and Accounts, Interim Management Statements, Half Year Report and other useful information about the Company, such as the current share price and frequently asked questions and answers in respect of shareholder matters, are available on the website www.rsagroup.com

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 +44 (0)871 384 2048

Overseas callers should use +44 (0)121 415 7064. Shareholders with a text phone facility should use +44 (0)871 384 2255

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 17 May 2010. 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

RSA provides shareholder information including the Annual Report and Accounts, AGM Notice, an events calendar and governance information via the Company's website www.rsagroup.com. You can elect to receive 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.

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 2009 was approximately 12.4m ordinary shares. The opening market price of an ordinary share on 2 January 2009 was 138.00p and the closing market price on 31 December 2009 was 120.60p. The highest daily closing price of an ordinary share was 148.10p on 12 January 2009 and the lowest daily closing price was 113.40p on 10 July 2009. Further details of the ordinary and preference shares are found in note 18 on pages 104 to 105.

Shareholdings by size

No of shares	Shareholders	%	Shares (m)	%
1 – 24,999	45,458	96.62	114.0	3.33
25,000 – 99,999	730	1.55	32.8	0.96
100,000 – 499,999	372	0.79	86.0	2.52
500,000 – 999,999	144	0.31	100.5	2.94
1,000,000 – 1,999,999	118	0.25	163.5	4.78
2,000,000 and above	225	0.48	2,923.3	85.47
Total	47,047	100.00	3,420.1	100.0

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. More information on protecting your investment can be found at www.moneymadeclear.fsa.gov.uk

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 write to Equiniti to request that their accounts be amalgamated

Low cost share dealing facilities

A telephone and internet dealing service is available through Equiniti which provides a simple way of buying and selling RSA shares. Commission is 1.5% with a minimum charge of £25 for telephone dealing and 1% with a minimum charge of £20 for internet dealing. For telephone sales call +44 (0)845 6037 037 between 8.30am and 4.30pm, Monday to Friday, and for internet sales log on to www.shareview.co.uk/dealing. You will need your shareholder reference number as shown on your share certificate. Share dealing services are also widely provided by other organisations.

ShareGift

Shareholders with a small number of shares, the value of which makes it uneconomical 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.

Disabled shareholders

RSA is committed to providing a quality service to all of its shareholders. An induction loop is installed at the AGM venue. Please contact the Group Secretariat department at the Registered Office, detailed on page 129, if you require particular assistance.

FINANCIAL CALENDAR

25 February 2010

Announcement of the full year results for 2009, the ordinary final dividend for 2009 and the first preference dividend for 2010

3 March 2010

Ex dividend date for the ordinary final dividend for 2009 and the first preference dividend for 2010

5 March 2010

Record date for the ordinary final dividend for 2009 and the first preference dividend for 2010

11 March 2010

Announcement of the scrip dividend price for the ordinary final dividend for 2009

1 April 2010

Payment date for the first preference dividend for 2010

6 May 2010

Deadline for the receipt of scrip dividend mandates by Equiniti Limited in relation to the ordinary final dividend for 2009

17 May 2010

Annual General Meeting

4 June 2010

Payment date for the ordinary final dividend for 2009 (subject to shareholder approval at the AGM)

5 August 2010*

Announcement of the half year results for the six months ended 30 June 2010, the ordinary interim dividend for 2010 and the second preference dividend for 2010

11 August 2010*

Ex dividend date for the ordinary interim dividend for 2010 and the second preference dividend for 2010

13 August 2010*

Record date for the ordinary interim dividend for 2010 and the second preference dividend for 2010

19 August 2010*

Announcement of the scrip dividend price for the ordinary interim dividend for 2010

1 October 2010*

Payment date for the second preference dividend for 2010

29 October 2010*

Deadline for the receipt of scrip dividend mandates by Equiniti Limited in relation to the ordinary interim dividend for 2010

26 November 2010*

Payment of the ordinary interim dividend for 2010

* provisional date

Important disclaimer

This document contains 'forward-looking statements' with respect to certain of the Group's plans and its current goals and expectations relating to its future financial condition, performance results, strategic initiatives and objectives. Generally, words such as "may", "could", "will", "expect", "intend", "estimate", "anticipate", "aim", "outlook", "believe", "plan", "seek", "continue" or similar expressions identify forward-looking statements. These forward-looking statements are not guarantees of future performance. By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances which are beyond the Group's control, including amongst other things, UK domestic and global economic business conditions, market-related risks such as fluctuations in interest rates and exchange

rates, the policies and actions of regulatory authorities (including changes related to capital and solvency requirements), the impact of competition, inflation, deflation, the timing impact and other uncertainties of future acquisitions or combinations within relevant industries, as well as the impact of tax and other legislation and other regulations in the jurisdictions in which the Group and its affiliates operate. As a result, the Group's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set forth in the Group's forward-looking statements. The Group undertakes no obligation to update any forward-looking statements, save in respect of any requirement under applicable law or regulation.

www.rsagroup.com

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

Director's photography by Homer Sykes and Liam Bailey
Executive Team by Liam Bailey
Photography for front cover by Liam Bailey

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