NEWS

RSA

23 February 2012

YEAR END RESULTS 2011

Good year for the Group on both the top and bottom line

- Net written premiums of £8.1bn, up 9% (8% at constant exchange)
- Underwriting result of £375m, up 58% and a combined operating ratio (COR) of 94.9%
- Investment result of £642m, up 19% driven by gains following action to reduce equity exposure
- Operating profit of £884m, up 38% and profit before tax of £613m, up 29%
- IGD surplus of £1.3bn, coverage remains strong at 2.0 times

Continued strong operating performance in 2012 despite ongoing market and economic challenges

- Expect to deliver good premium growth and a COR of better than 95%
- Profitability will remain strong in Scandinavia, Canada and Ireland; driving improved UK underwriting performance; Italian remediation remains a priority
- Investment income to be around £500m, reflecting the ongoing gap between maturing and reinvestment yields

Confident of delivering sustained outperformance at both local and Group level

- Fundamental strengths unchanged; retain non-life bias with rigorous focus on underwriting discipline and control
- Strong and diversified portfolio combines leading positions in competitive UK market, strong operations in Scandinavia and Canada, consistent outperformance in Ireland, and fast growing Emerging Markets
- Overseas operations to constitute a greater share of Group premiums – current target is c70% by the end of 2015; now expect to be close to this in 2014 and move beyond 70% in subsequent years
- Reposition UK as a more targeted and focused business, which delivers improved and sustained profitability
- M&A focus will be on bolt-on deals

Continued growth in dividend

- Prudent to grow the dividend at more modest levels, reflecting the impact of low yields
- Recommended final dividend up by 2% to 5.82p, full year dividend of 9.16p
- Strongly placed to return to a higher level of dividend growth as market and economic conditions improve

	12 Months 2011	12 Months 2010	Movement*
Net written premiums	**£8,138m**	£7,455m	9%
Underwriting result	**£375m**	£238m	58%
Combined operating ratio	**94.9%**	96.4%	1.5pts
Operating result	**£884m**	£641m	38%
Profit before tax	**£613m**	£474m	29%
Profit after tax	**£427m**	£355m	20%
Final dividend for the year per ordinary share	**5.82p**	5.70p	2%
Dividend for the year per ordinary share	**9.16p**	8.82p	4%
	31 December 2011	31 December 2010	
Financial position			
Shareholders' funds	**£3,801m**	£3,766m	1%
Net asset value per share excluding IAS 19	**108p**	108p	-
Net asset value per share	**104p**	104p	-

* Reported exchange rate

Simon Lee, Group CEO of RSA, commented:

"We have delivered a good result in difficult conditions given record natural catastrophe losses for the industry, the challenging economic environment and historically low yields. Premiums were up by 9%, driven by rate and the benefit of 2010 deals. Profits also improved significantly, with another strong contribution from International and the UK benefiting from both improved weather and management action.

Looking forward, we expect the market environment to remain tough. However, the last few years have demonstrated the resilience of the business in even the most challenging conditions. With these foundations and our clear strategy, we remain confident of continuing to drive strong results. In 2012, we currently expect to deliver good premium growth and a combined of better than 95%. In the medium term, we are committed to driving the business to the next level and delivering sustained outperformance. We are strongly positioned as economic growth returns and yields improve."

RSA

Enquiries:

Analysts
Claire Cordell
Tel: +44 (0) 20 7111 7212
Mobile: +44 (0) 7834 944 204

Simon Sperryn-Jones
Tel: +44 (0) 20 7111 7140
Mobile: +44 (0) 7771 996 221

Press
Louise Shield
Tel: +44 (0) 20 7111 7047
Mobile: +44 (0) 7786 114 662

Bart Nash
Tel: +44 (0) 20 7111 7336
Mobile: +44 (0) 7920 467 905

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Important disclaimer
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This press release (together with the Annual Report and Accounts referred to herein) has been prepared in accordance with the requirements of English company law and the liabilities of the directors in connection with this press release (together with the Annual Report and Accounts referred to herein) shall be subject to the limitations and restrictions provided by such law. This press release may contain ‘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 or 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. Nothing in this press release (together with the Annual Report and Accounts referred to herein) should be construed as a profit forecast.

MANAGEMENT REPORT

CEO REVIEW

2011 Review

In 2011, the Group has delivered a good performance on both the top and bottom line, despite the challenging economic environment, historically low investment yields and record levels of catastrophe losses for the industry.

Net written premiums are up by 9% to £8,138m (8% at constant exchange) with premium growth comprising 4% from rate on renewals, 5% from 2010 deals and a 1% benefit from foreign exchange offset by a 1% decline due to reduced volumes. This marginal volume reduction reflects growth in Emerging Markets, Canada and Specialty lines offset by reductions in UK Personal Motor, where we continue to push rate as we focus on improving profitability, and UK Regions Mid-Market Commercial, where we continue to take action in a very competitive segment.

The underwriting result is up by 58% to £375m (2010: £238m) with a current year underwriting profit of £146m (2010: underwriting loss of £29m) and a prior year profit of £229m (2010: £267m). The current year result has benefited from continued management action on rate and expenses, with improved weather partially offset by increased large losses. Weather losses were £132m better than 2010, although still worse than expected, while large losses were £55m higher than the prior year despite 2010 including the Chilean earthquake net loss of £30m. 2011 saw a record level of natural catastrophe losses across the industry. The Group, however, benefited from its focus on underwriting discipline and prudent reinsurance programme. The net impact of the earthquakes in Japan and New Zealand and the flooding in Australia in the first quarter was around £12m, the Scandinavian storms in July and November were around £35m, the floods in Ireland and Thailand were £24m and £17m respectively and in Canada, the Slave Lake fire cost £11m. The prior year result of £229m reflects positive run off from all regions and includes another strong contribution from International, with profits in Swedish Personal lines, Danish Liability and Canadian Motor and Liability offsetting negative development in Italy following losses in Personal Motor. The combined operating ratio (COR) of 94.9% is 1.5pts better than 2010.

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

The investment result is up by 19% to £642m (2010: £538m) and includes investment income of £579m (2010: £569m) and total gains of £157m (2010: £63m). Investment income increased by 2% over the prior year with management actions, a property settlement in Denmark, additional income on Swedish index-linked bonds and one-off dividends and foreign exchange more than offsetting falling yields. Total investment gains of £157m are ahead of guidance and predominantly reflect action taken to reduce equity exposure and lock in gains.

The insurance result of £1,017m, which comprises the underwriting result plus the investment result, is up by 31% on the prior year and includes £652m from International, £310m from the UK and £68m from Emerging Markets.

The operating result is up by 38% to £884m (2010: £641m). Profit before tax is up by 29% to £613m (2010: £474m). Profit before tax is after amortisation of £114m, which includes £71m of goodwill write-downs, and profit after tax is up by 20% to £427m. The underlying return on opening shareholders' funds is 11.6% (2010: 10.3%) with the movement on the prior year due primarily to the improved underwriting result following the adverse weather in 2010. The underlying return on average shareholders' funds was 11.6% (2010: 9.9%).

The Group's capital position remains strong with the IGD surplus of £1.3bn representing coverage of twice the requirement and our economic capital surplus increasing by £0.1bn since the end of the third quarter to £0.8bn at 31 December 2011.

2012 Outlook

We expect market conditions to continue to be difficult in 2012, with investment yields remaining at historical lows and subdued economic growth in some of our markets. Despite this, we expect to deliver good premium growth and currently expect the Group's COR to be better than 95% and investment income to be around £500m.

Our 2012 guidance demonstrates the Group's continuing strong operating performance but also the impact of declining investment returns. While these conditions in economic and investment markets persist, it is prudent to grow the dividend at a more modest rate. The Board is therefore recommending a 2% increase in the final dividend to 5.82p (2010: 5.70p), which together with the interim dividend of 3.34p, gives a total dividend for the year of 9.16p (2010: 8.82p). The Group is strongly placed to return to a higher level of dividend growth when investment yields move to more normal levels and as economic growth returns.

2011 Business Overview

Set out below are the net written premiums and combined operating ratios for our regions:

	Net written premiums				Combined operating ratio		
	12 Months 2011	12 Months 2010	Movement as reported	Movement at constant exchange	**12 Months 2011**	12 Months 2010	Movement
	£m	£m	%	%	**%**	%	Points
International	**3,921**	3,536	11	9	**91.0**	90.6	(0.4)
UK	**3,087**	2,925	6	6	**98.2**	102.2	4.0
Emerging Markets	**1,103**	964	14	15	**98.7**	98.7	-
Group Re	**27**	30	(10)	(10)	**-**	-	-
Total Group	**8,138**	7,455	9	8	**94.9**	96.4	1.5

- International

International continued to drive the Group forward, delivering strong top line growth and an excellent underwriting result. Premiums are up by 11% to £3,921m (9% at constant exchange) due to rating action and the benefit of 2010 deals. The underwriting profit increased by 5% to £341m and the COR is a very strong 91.0% (2010: 90.6%).

In Scandinavia, premiums are up by 6% to £1,824m (2% at constant exchange) reflecting growth across both Personal and Commercial lines. In Personal lines, premiums are up by 5% to £982m (1% at constant exchange) with good growth in Household, Personal Accident and Danish Motor offsetting reduced premiums in Norway as we focus on improving the profitability of the portfolio. Commercial premiums are up by 6% to £842m (3% at constant exchange) with growth in Renewable Energy, Marine and Norway partially offset by the non renewal of a number of large accounts in Property and Danish Workers Compensation in the first half of the year. The Scandinavian underwriting result of £264m is up by 4% on the prior year (2010: £254m) despite the storms in July and November. The COR was an excellent 85.4% (2010: 85.4%) driven predominantly by Personal lines, with a COR of 75.0% (2010: 78.5%), while Commercial lines were impacted by large losses and adverse weather and delivered a COR of 98.0% (2010: 93.6%).

Canada has delivered another excellent top line performance with premiums up by 19% on both a reported and constant basis to £1,483m driven by rate increases, strong retention and the benefit of the acquisition of GCAN, which contributed 10 points of the total growth. In Personal, net written premiums increased by 9% to £1,012m with Johnson, our Direct business up by 10% to £555m with strong new business in Household and Motor, while Personal Broker grew by 7% to £457m due to Household and Travel. In Commercial lines, net written premiums increased by 50% to £471m driven by GCAN, which contributed around 40 points of this growth, and strong performances in both SME and Risk Managed. GCAN has been an outstanding acquisition for the Group, transforming our Commercial offering in Canada and delivered year on year NWP growth of 18% with a COR of 83.2% in 2011. Canada also delivered a record underwriting profit, up by 45% to £116m (2010: £80m) despite the impact of the Slave Lake fire in May, the second worst insured event in Canadian history. The COR of 91.6% (2010: 92.8%) is driven by strong performances in both Personal, where the COR of 92.3% (2010: 94.2%) reflects an improved Motor result, and Commercial, which delivered a COR of 89.8% (2010: 88.3%) supported by GCAN.

Across Other Europe, premiums are up by 8% to £614m (7% at constant exchange). In Ireland, growth of 16% to £353m (15% at constant exchange) was driven by last year's acquisition of 123.Money which generated premiums of £81m offsetting volume reductions in other lines. We continue to take rating action with increases of 6% in Household and 6% in Personal Motor. In Italy, premiums of £261m are in line with 2010 (down 2% at constant exchange). The Other Europe COR of 106.6% (2010: 101.5%) includes another market-leading performance from Ireland with a sub-93% COR despite the flooding in November. The Italian underwriting loss was disappointing at £63m, which comprises a current year loss of £13m, mainly in Personal Motor, and a prior year loss of £50m across Personal Motor and General Third Party Liability. The main factors driving the losses were a wider adoption of and changes to the Milan Bodily Injury Tables and late reporting of and unfavourable court decisions on large losses leading to further deterioration on the 2007 to 2010 accident years. Over the last couple of years, we have taken decisive action to remediate the business including a complete change of the management team, pushing rate hard and culling unprofitable agents. The Italian market environment remains extremely challenging and the progress of the turnaround has been slower than we would have liked. Our focus remains to remediate the business as quickly as possible and we now expect losses to be significantly reduced in 2012 and to be close to breakeven in 2013.

- UK

The UK delivered a strong top line performance with premiums up by 6% to £3,087m in what remains a competitive market. The underwriting profit was £40m with a COR of 98.2% representing a 4 point improvement on 2010.

In Personal, premiums are up by 10% to £1,364m with excellent growth in Pet and Household partially offset by a reduction in Motor premiums where double digit rate increases were outweighed by volume reductions as we continued to focus on improving profitability. In Pet, premiums more than doubled to £197m with Tesco Pet exceeding expectations and generating around £130m of premiums in 2011. Household premiums are up by 11% due to strong retention and rate, the acquisition of Oak Underwriting in April 2011, which specialises in high net worth insurance, affinity, where we developed a new product for building societies, and an increased share on Broker Panels.

In Commercial, premiums of £1,723m are up by 2%. We continue to focus on Specialty, with Marine up by 9% to £293m and Risk Managed Europe up by 19% to £129m. Regions, which is Mid-Market business transacted through our regional offices, remains extremely competitive and our withdrawal of capacity is reflected in the 10% reduction in premiums to £291m. Commercial Motor grew at 9% but is again impacted by the phasing of one significant contract with three year renewals and, excluding this contract, premiums are down by 15%.

The underwriting profit of £40m (2010: loss of £95m) and COR of 98.2% (2010: 102.2%) represent a significant improvement over 2010, which was impacted by severe winter weather. The result is led by a strong performance in Personal lines, with Household delivering a COR of 90.4% and Motor breaking-even as expected following continued management action. The Commercial underwriting loss of £20m includes strong performances in Marine and Liability with CORs of 91.1% and 97.8% respectively offset by Property, where the COR was 105.0% due to large losses, and Motor. Commercial Motor, where the COR improved by 4.9 points to 104.8%, was impacted by losses on one significant contract and, going forward, this contract will continue to act as a drag on the UK Commercial Motor result.

We remain focused on controlling costs and the UK achieved its expense ratio target (excluding commissions) of around 14% a year ahead of schedule.

- Emerging Markets

In Emerging Markets, premiums are up by 14% to £1,103m (15% at constant exchange), with total premiums including our Indian associate of £1,241m up by 15% (17% at constant exchange). The underwriting result of £3m (2010: £12m) reflects a strong performance from Latin America offset by severe weather in the Baltics and Asia and the Middle East, including the floods in Thailand. The COR of 98.7% is in line with 2010.

Latin America delivered another excellent top line performance with premiums up by 17% to £670m (18% at constant exchange) with double digit growth in five countries. Across the region, Motor grew by 23% with strong performances in Argentina, Brazil, Chile and Uruguay. In Marine, premiums were also up by 23% driven by Argentina and Brazil. Affinity had another good year, growing at 25% with 17 new deals won in 2011. In the last four years, premiums have doubled in Latin America and we remain very excited about the potential and prospects for the region.

In Central and Eastern Europe, premiums grew by 8% to £219m (8% at constant exchange). Across the Baltics, we have maintained our market leading position. Lithuania returned to growth driven by rate increases, in Latvia, premiums were broadly in line with last year and in Estonia, premiums doubled following an exclusive partnership agreement with SEB Bank, the region's second largest bank. Our Direct businesses in Poland, Russia and the Czech Republic grew by 9% to £85m (12% at constant exchange) and today we insure over 400,000 vehicles across the three countries.

In Asia and the Middle East, premiums of £214m are up by 14% (16% at constant exchange) led by Specialty, where premiums were up by 24%, Singapore retail, which grew at 47% driven predominantly by Motor, and Oman, which was up by 48% due to the acquisition of Al Ahlia in May 2010. Our Indian associate grew by 19% to £138m (25% at constant exchange) mainly driven by Motor.

Longer Term Outlook

I am excited to be leading RSA forward and confident in our ability to deliver sustained outperformance. As a management team, we have built a diversified general insurance business which combines leading positions in the competitive UK market, strong operations in the attractive mature economies of Scandinavia and Canada, an Irish business that consistently outperforms the market and a fast-growing Emerging Markets region. We are rightly known for the quality of our people, our focus on technical capability and our track record of delivering operational efficiencies by leveraging best practice across the Group. We have a strong and experienced management team who provide continuity and are determined to build on our existing track record of success. My objective is to outperform against local competition and as a Group as a whole.

As we move forward, the fundamental strengths of RSA will remain unchanged. We will continue to be a pure-play general insurer with a strong balance sheet and capital positions. We will retain our rigorous focus on underwriting discipline and control, maintain our conservative reinsurance and reserving policies and our high quality, low risk investment strategy. All of these have served us well.

With effect from 1 January 2012, we have restructured the business into four regions, Scandinavia, Canada, UK and Western Europe, which includes Ireland and Italy, and Emerging Markets, which remains unchanged. This new structure reflects the significant contribution our Scandinavian and Canadian businesses make to the Group's results and will drive improved performance across our UK and Western European region. The changes will also strengthen the business representation on the Group Executive Team.

One of our key strengths is our diversified portfolio. In Scandinavia, where we have developed a new customer-led strategy, our focus is to protect our existing leadership positions in Swedish Motor and Personal Accident, improve profitability in Denmark and Norway and capitalise on being the only scale player in the region with a global presence to increase our share of business from the global brokers and grow Specialty lines. We will drive strong growth in Canada by bolstering our geographical footprint, building on our outstanding track record at Johnson, where we would expect to see continued double digit growth, and benefiting from the expertise acquired with GCAN to promote our broadened Commercial proposition. We continue to build scale in Emerging Markets by leveraging Group capability in Affinity, Motor and Specialty and still expect to deliver premiums of around £2.2bn by the end of 2015, although, we are working with the businesses to see how we can beat this target.

In the UK, we will re-position the business to make it more focused and maximise its contribution. We plan to deliver improved underwriting profitability through targeting growth in products where we have a strategic advantage such as Household, Pet, Marine and Risk Managed. In Motor, we will focus on fewer segments, while in Property, we will work to convert our leading market share into improved and sustainable underwriting profitability. Our distribution will also become more targeted as we focus on a smaller number of key partners. In Western Europe, the remediation of Italy remains a priority and the team are taking the right actions to staunch the underwriting losses and be close to breakeven in 2013. We expect Ireland to create strong value from 123.Money, maintain its market leading position and continue to outperform peers.

With the action we are taking across the Group, we will continue to deliver good top line growth and strong profitability. We have previously set a target for our overseas operations to comprise around 70% of total Group premiums by the end of 2015. We are challenging the business to be close to this level in 2014 and expect to move beyond the 70% in subsequent years.

Another of the Group's strengths is our diversified product range with premiums split broadly evenly between Personal and Commercial. We have successfully grown Personal lines by 51% since 2007 and will continue to deliver targeted profitable growth. In Commercial, where overall growth has been more modest, we will aim to fully capitalise on the global opportunity in Specialty lines. Specialty has been a success for the Group, representing around a third of our total Commercial premiums, up from around a quarter in 2007, but there is still more that we can do. In the fourth quarter of 2011, we established a Global Specialty Lines leadership team to leverage the Group's technical expertise and global network to drive further growth in Marine, Construction and Engineering, Renewable Energy and Risk Managed.

M&A has been a key part of the Group's growth with nearly 50 acquisitions completed since 2005. Going forward, our focus will be on bolt-on acquisitions which enhance the diversified nature of the general insurance portfolio, meet our strict internal return criteria and are earnings accretive in the short term.

We remain pragmatic about the challenges and opportunities that we face in achieving our objective of outperforming locally and as a Group as a whole. However, where we see underperforming businesses or lines of business with no viable routes to outperformance, we will take decisive action.

Looking forward, we expect the market environment to remain tough. However, the last few years have demonstrated the resilience of the business in even the most challenging conditions. With these foundations and the actions outlined above, we remain confident of continuing to drive strong results. In 2012, we currently expect to deliver good premium growth and a combined of better than 95%. In the medium term, we are committed to driving the business to the next level and delivering sustained outperformance. We are strongly positioned as economic growth returns and yields improve.

Simon Lee, Group CEO, RSA

OTHER FINANCIAL INFORMATION

- Rating movements

Rate movements achieved for risks renewing in December 2011 versus comparable risks renewing in December 2010 are set out in the table below. Our action on rating demonstrates our commitment to maintaining pricing discipline and to delivering sustainable profitable performance.

	Personal		**Commercial**		
	Motor %	**Household %**	**Motor %**	**Liability %**	**Property %**
Scandinavia	2	8	7	7	1
Canada	4	13	3	1	3
UK	17	6	7	5	4

- Other activities

The analysis of the other activities result is as follows:

	12 Months 2011 £m	12 Months 2010 £m	Movement
Central expenses	**(63)**	(58)	(9)%
Investment expenses and charges	**(34)**	(33)	(3)%
Other operating activities	**(36)**	(44)	18%
Other activities	**(133)**	(135)	1%

Other activities of £133m are marginally down on the prior year (2010: £135m) and comprise central expenses of £63m, investment expenses of £34m and other operating activities of £36m. Other operating activities include the ongoing investment in our associate in India and our direct operations in Central and Eastern Europe, for which the charge in 2011 reduced by £4m to £26m.

We have separately disclosed one-off Solvency II implementation costs of £30m (2010: £5m) on the face of the management income statement and therefore these costs are no longer shown within other activities.

- Investment result

The analysis of the investment results is as follows:

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

The Group continues to maintain a low risk investment strategy with the portfolio dominated by high quality fixed income and cash assets. The investment result increased by 19% to £642m (2010: £538m) and includes investment income of £579m and total gains of £157m.

Investment income of £579m is up by 2% and benefits from continued action to mitigate the impact of falling yields. In addition, the result was enhanced by approximately £25m following the settlement of a rental dispute in Denmark, around £10m from a combination of stronger Swedish index-linked income due to higher inflation levels and one-off dividends from equity and preference share holdings, as well as positive foreign exchange. The average underlying yield on the portfolio (excluding the yield on the ADC funds withheld account) was 3.9% (2010: 3.8%). Excluding one-offs, the average underlying yield was 3.6% with a 1.3% return on cash assets and 3.8% on the remainder of the portfolio.

We currently expect investment income to be around £500m in 2012, which, excluding the one-offs in 2011 and the income on the ADC, represents a decline of just under 7% on income and reflects the ongoing variance between maturing and reinvestment yields.

Total gains of £157m (2010: £63m) predominantly reflect £154m of realised gains on equities as we have significantly reduced our equity exposure during 2011.

In 2012, we will restate the consolidated management income statement to exclude realised and unrealised gains from the operating result. Given the inherent volatility of investment gains, this action will provide greater transparency and predictability to the operating result. A proforma consolidated income statement restating 2011 and the 2010 comparatives in the proposed format can be found on page 35.

The table below sets out the key movements in the investment portfolio during 2011:

	Value 31/12/2010 £m	Foreign Exchange £m	Mark to Market £m	Other Movements £m	**Value 31/12/2011 £m**
Government Bonds	**5,340**	(70)	155	(718)	**4,707**
Non Government Bonds	**6,095**	(75)	34	913	**6,967**
Cash	**1,317**	(25)	-	(34)	**1,258**
Equities	**1,286**	(4)	(78)	(433)	**771**
Property	**374**	(1)	(6)	(5)	**362**
Prefs & CIVs	**264**	(2)	10	17	**289**
Other	**113**	(1)	6	(14)	**104**
Total	**14,789**	**(178)**	**121**	**(274)**	**14,458**

The investment portfolio decreased marginally over the year to £14,458m, with mark to market gains of £121m offset by foreign exchange losses of £178m and net negative other movements of £274m. The foreign exchange movement reflects the appreciation of Sterling against the Canadian Dollar, Euro, Danish Krone and the Swedish Krona. Other movements predominantly reflect net redemptions of government bonds, the sale of equities and the impact of the acquisition of GCAN.

At 31 December 2011, unrealised gains in the statement of financial position were £603m (31 December 2010: £580m).

Having benefited from our increased equity weighting, during 2011 we have sold around £430m of equities locking in significant realised gains. Equities (excluding preference shares and Collective Investment Vehicles backed by fixed income and cash) now comprise 5% of the portfolio, down from 9% at 31 December 2010. The percentage of the equity portfolio protected by derivatives remains high, with around 62% of the exposure now hedged with a rolling programme of put and call options, providing protection down to a FTSE level of 4,425.

On peripheral Europe, we have reduced our limited exposure to government bonds in Greece, Ireland, Italy, Portugal and Spain from £209m at the beginning of the year to £138m or just less than 1% of the total portfolio. Of this exposure, the majority is held to back the liabilities of our European insurance operations, with £71m in Ireland and £42m in Italy. Additionally, we hold £2m of Greek and £23m of Spanish government debt. We also have limited exposure to bank debt in these countries and our holdings totalled just £132m at 31 December 2011.

Of the total investment portfolio, 89% remains invested in high quality fixed income and cash assets. The fixed interest portfolio is concentrated on high quality short dated assets, with 98% of the bond portfolio investment grade, and 74% rated AA or above. The bond holdings are well diversified, with 75% invested in currencies other than Sterling, and 60% invested in non government bonds (31 December 2010: 53%). The average duration across the Group has been increased to 3.4 years (2010: 3.1 years) enabling us to benefit from the higher yields on longer dated securities.

The government bond portfolio of £4.7bn is high quality, with 88% rated AAA and 94% rated A or above. The non government bond portfolio of £7.0bn comprises £1.9bn of Scandinavian Mortgage Bonds, £3.4bn of other financials and £1.7bn of non financials. The Scandinavian Mortgage Bonds portfolio comprises £1.1bn of Swedish bonds, which are all rated AAA, and £0.8bn of Danish bonds, which are principally rated AAA. The Scandinavian Mortgage Bond portfolio has an average LTV of around 60%. Within the £3.4bn of other financial exposure, £0.4bn is in supranational and sovereign backed entities, £1.0bn in other non bank financials and £2.0bn in banks. Of the £2.0bn in banks, just £238m of this is subordinated debt and only £20m is Tier 1 (including non-perpetual preference shares).

The commercial property portfolio is 3% of investment assets and comprises high quality commercial properties.

In 2012, we will continue to follow our high quality, low risk strategy. Within this, we see the potential for a further increase in exposure to high quality non government securities, from 60% at the end of 2011, towards 65% of the bond portfolio. We will also continue to take advantage of opportunities to modestly increase our holdings in longer dated securities, although average duration across the Group will remain below 4 years.

OTHER INFORMATION

Capital position

The regulatory capital position of the Group under the Insurance Groups Directive (IGD) is set out below:

	31 December 2011 Requirement £bn	**31 December 2011 Surplus £bn**	31 December 2010 Surplus £bn
Insurance Groups Directive	**1.3**	**1.3**	1.5

The IGD surplus is unchanged since the end of the third quarter at £1.3bn (31 December 2010: £1.5bn) and coverage over the IGD requirement remains strong at 2.0 times (31 December 2010: 2.3 times). The reduction in the surplus over the year reflects profits offset by dividends and the acquisition of GCAN. A 30% fall in the FTSE from the 31 December 2011 level of around 5,570 would reduce the IGD surplus by an estimated £0.2bn.

We continue to make good progress on Solvency II and are actively engaged with the FSA on the pre-application phase of the internal model approval process, however, the start date has currently been delayed until January 2014 and this may potentially slip further. We still do not anticipate that Solvency II will cause any fundamental change to the way we run the business.

The economic capital surplus remains significant and increased by £0.1bn during the fourth quarter to £0.8bn at 31 December 2011. This compares with £1.1bn at the beginning of the year, with the decline in risk free yields and dividends offsetting capital generated during the year. Economic capital is the Group's own internal measure of capital and is calibrated to a risk tolerance consistent with Standard & Poor's long term A rated bond default curve, equivalent to a probability of insolvency over one year of 1 in 1,250. This compares with the 1 in 200 calibration under the FSA's Individual Capital Assessment (ICA) regime, resulting in a significantly higher capital surplus under ICA. Solvency II, which is currently expected to be implemented on 1 January 2014, will also be calibrated to a probability of insolvency over one year of 1 in 200.

Our financing and liquidity position is strong. The next call on any external financing is on the £450m subordinated guaranteed perpetual notes in December 2014 and our committed £455m senior facility remains undrawn.

The Group is currently rated A positive outlook by Standard & Poor's, A2 stable outlook by Moody's and A stable outlook by AM Best.

Return on equity

Underlying return on equity is 11.6% (2010: 10.3%) and is calculated as the profit after tax attributable to ordinary shareholders from continuing operations, excluding acquisitions, disposals and reorganisation costs expressed in relation to opening shareholders' funds attributable to ordinary shareholders.

The underlying return on equity based on average shareholders' funds was 11.6% for 2011 compared with 9.9% in 2010.

Combined operating ratio

The combined operating ratio represents the sum of expense and commission costs expressed in relation to net written premiums and claim costs expressed in relation to net earned premiums. The calculation of the COR of 94.9% is based on net written premiums of £8,138m and net earned premiums of £7,856m.

Net asset value per share

The net asset value per share at 31 December 2011 excluding IAS 19 was 108p (31 December 2010: 108p) and including the pension deficit was 104p (31 December 2010: 104p). At 17 February 2012, the net asset value per share excluding IAS 19 was estimated at 108p and including the pension deficit was estimated at 105p.

The net asset value per share at 31 December 2011 was based on total shareholders' funds of £3,801m, adjusted by £125m for preference shares, and shares in issue at the period end of 3,525,507,432 (excluding those held in the ESOP and SIP trusts).

Earnings per share

The earnings per share is calculated by reference to the result attributable to the ordinary shareholders of the Parent Company and the weighted average number of shares in issue during the period. Operating earnings per share is calculated by reference to the after tax result attributable to the equity shareholders excluding amortisation, reorganisation costs, Solvency II costs and acquisitions and disposals and the weighted average number of shares in issue during the period. On a basic and diluted basis the weighted average number of shares in issue was 3,511,179,557 and 3,541,003,312 respectively (excluding those held in ESOP and SIP trusts).

Dividend

The directors will recommend at the Annual General Meeting, to be held on 14 May 2012, that a final ordinary dividend of 5.82p (2010: 5.70p) per share be paid. This, together with the interim dividend of 3.34p paid on 25 November 2011, will make a total distribution for the year of 9.16p (2010: 8.82)p.

The final dividend will be payable on 25 May 2012 to shareholders on the register at the close of business on 30 March 2012. Shareholders will be offered a scrip dividend alternative. Scrip dividend mandates need to be received by Equiniti Limited by 4 May 2012. The first preference share dividend for 2012 will be payable on 30 March 2012 to holders of such shares on the register at the close of business on 2 March 2012.

Related party transactions

In 2011, there have been no related party transactions that have materially affected the financial position of the Group.

2011 Disclosure Changes

In Scandinavia, to better reflect the nature of the product and our management structure, Care net written premiums of £82m have been reclassified from Personal to Commercial lines and the comparatives restated in the regional analysis found on page 19. In 2010, Care generated NWP of £76m and an underwriting profit of £12m.

In the UK, due to growth in the portfolios and to aid transparency we have amended the product information disclosure shown on page 19 to detail Pet in Personal and Marine in Commercial lines. We have also restated the 2010 comparatives, resulting in some minor movements between lines, however the overall Personal and Commercial results remain unchanged.

In 2011, we have separately disclosed one-off Solvency II implementation costs of £30m (2010: £5m) on the face of the management income statement below the operating result. The impact of this is to increase the 2010 management income statement operating profit by £5m. Profit before tax remains unchanged.

2012 Reporting

From 1 January 2012, we have restructured the business into four regions, Scandinavia, Canada, UK and Western Europe, which includes Ireland and Italy, and Emerging Markets, which remains unchanged. This new structure reflects the significant contribution our Scandinavian and Canadian businesses make to the Group's results and will drive improved performance across our UK and Western European region. The changes will also strengthen the business representation on the Group Executive. We will report under this structure for the first time at the Q1 results on 3 May 2012.

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

Although these changes are effective for 2012 reporting only, we include a proforma regional analysis of insurance operations and a consolidated management basis income statement covering 2011 and 2010 on pages 35 to 36.

FURTHER INFORMATION

The full text of the above is available to the public at 1 Leadenhall Street, London EC3V 1PP. The text is also available online at www.rsagroup.com. A live audiocast of the analyst presentation, including the question and answer session, will be broadcast on the website at **10.00am** today and is available via a listen only conference call by dialling UK Freephone 0800 358 5256 or International dial in: + 44 (0) 208 515 2302. An indexed version of the audiocast will be available on the website by the end of the day. Copies of the slides to be presented at the analyst meeting will be available on the site from **9.30am** today.

A Q1 interim management statement will be released on 3 May 2012.

The half year 2012 results will be announced on 2 August 2012.

MANAGEMENT BASIS OF REPORTING

The following analysis on pages 12 to 15 has been prepared on a non statutory basis as management believe that this is the most appropriate method of assessing the financial performance of the Group. The management basis reflects the way management monitor the business. The underwriting result includes insurance premiums, claims and commissions and underwriting expenses. In addition, the management basis also discloses a number of items separately such as investment result, interest costs, reorganisation costs and other activities. Estimation techniques, risks, uncertainties and contingencies are included on pages 20 to 23. Financial information on a statutory basis is included on pages 25 to 32.

RSA

SUMMARY CONSOLIDATED INCOME STATEMENT

MANAGEMENT BASIS

	12 Months 2011 £m	12 Months 2010 £m
Net written premiums	**8,138**	7,455
Underwriting result	**375**	238
Investment income	**579**	569
Realised gains	**201**	68
Unrealised gains/(losses), impairments and foreign exchange	**(44)**	(5)
Unwind of discount including ADC	**(94)**	(94)
Investment result	**642**	538
Insurance result	**1,017**	776
Other activities	**(133)**	(135)
Operating result*	**884**	641
Interest costs	**(117)**	(118)
Amortisation and impairment of intangible assets	**(114)**	(29)
Solvency II costs	**(30)**	(5)
Reorganisation costs	**-**	(5)
Acquisitions and disposals	**(10)**	(10)
Profit before tax	**613**	474
Taxation	**(186)**	(119)
Profit after tax	**427**	355

Earnings per share on profit attributable to the ordinary shareholders of the Parent Company:		
Basic	**11.9p**	9.8p
Diluted	**11.8p**	9.7p

Operating earnings per share on profit attributable to the ordinary shareholders of the Parent Company:		
Basic	**14.3p**	10.8p
Diluted	**14.2p**	10.7p

* The 2010 operating result has been restated to exclude Solvency II costs, which are now shown separately.

RSA

SUMMARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION

MANAGEMENT BASIS

	31 December 2011	31 December 2010
	£m	£m
Assets		
Goodwill and other intangible assets	**1,359**	1,209
Property and equipment	**275**	287
Associated undertakings	**29**	38
Investments		
Investment property	**362**	374
Equity securities	**1,060**	1,550
Debt and fixed income securities	**11,674**	11,435
Other	**104**	113
Total investments - management basis	**13,200**	13,472
Reinsurers' share of insurance contract liabilities	**2,073**	2,652
Insurance and reinsurance debtors	**3,328**	3,137
Other debtors and other assets	**1,059**	981
Cash and cash equivalents	**1,258**	1,317
	22,581	23,093
Assets held for sale*	**17**	11
Total assets	**22,598**	23,104
Equity and liabilities		
Equity		
Shareholders' funds	**3,801**	3,766
Non controlling interests	**114**	129
Total equity	**3,915**	3,895
Loan capital	**1,313**	1,315
Total equity and loan capital	**5,228**	5,210
Liabilities (excluding loan capital)		
Insurance contract liabilities	**14,766**	15,140
Insurance and reinsurance liabilities	**602**	656
Borrowings	**298**	298
Provisions and other liabilities	**1,704**	1,800
Total liabilities (excluding loan capital)	**17,370**	17,894
Total equity and liabilities	**22,598**	23,104

These summary consolidated financial statements have been approved for issue by the Board of Directors on 22 February 2012.

* Assets held for sale relate to property in Scandinavia and Canada.

OTHER INFORMATION

MANAGEMENT BASIS

Movement in net assets

	Shareholders' funds	Non controlling interests	Loan capital	Net assets
	£m	£m	£m	£m
Balance at 1 January 2011	**3,766**	**129**	**1,315**	**5,210**
Profit after tax	426	1	-	**427**
Exchange (losses)/gains net of tax	(71)	1	-	**(70)**
Fair value gains net of tax	26	-	-	**26**
Pension fund actuarial losses net of tax	(63)	-	-	**(63)**
Amortisation of loan capital	-	-	(2)	**(2)**
Share issue	25	-	-	**25**
Changes in shareholders' interests in subsidiaries	5	1	-	**6**
Share based payments	12	-	-	**12**
Prior year final dividend	(198)	(18)	-	**(216)**
Current year interim dividend	(118)	-	-	**(118)**
Preference dividend	(9)	-	-	**(9)**
Balance at 31 December 2011	**3,801**	**114**	**1,313**	**5,228**

Net assets have increased by £18m to £5,228m. This increase primarily reflects the profit after tax for the period of £427m offset by ordinary dividends of £334m, exchange losses of £70m and pension fund actuarial losses of £63m.

Pension fund position

The table below provides a reconciliation of the Group's pension fund position (net of tax) from 1 January 2011 to 31 December 2011.

	UK	Other	Group
	£m	£m	£m
Pension fund at 1 January 2011	**(86)**	**(56)**	**(142)**
Actuarial losses	(38)	(25)	(63)
Deficit funding	42	-	42
Other movements	17	6	23
Pension fund at 31 December 2011	**(65)**	**(75)**	**(140)**

The deficit on the pension schemes as at 31 December 2011 is £140m compared with £142m at the start of the year. The movement primarily reflects changes in the market driven assumptions offset by employer's contributions and higher than expected return on assets. The changes in assumptions for the UK schemes include a decrease in the discount rate from 5.5% to 4.9%, in line with decreasing corporate bond yields, and a decrease in the general inflation assumption from 3.1% to 2.8%. The inflation assumption for pension increases is 2.7% (2010: 2.9%) reflecting the 5% cap on annual pension increases. The asset outperformance derives from our prudent asset mix which generated an after tax return of over £500m in 2011. These assets comprise a low equity exposure combined with an extensive swap programme, built up since 2005, and insurance arrangements entered into in 2009.

The increase in the deficit of the Group's pension schemes outside of the UK of £19m is primarily driven by reductions in the Canadian discount rate from 5.7% to 5.3% and the Irish discount rate from 5.6% to 5.3%.

OTHER INFORMATION

MANAGEMENT BASIS

Cashflow

	12 Months 2011 £m	12 Months 2010 £m
Operating cashflow		
Underlying cashflow	**612**	539
December 2010 freeze	**(95)**	-
Equity hedges	**13**	(23)
Operating cashflow	**530**	516
Tax paid	**(227)**	(215)
Interest paid	**(116)**	(115)
Group dividends	**(303)**	(246)
Dividend to non controlling interests	**(18)**	(2)
Pension deficit funding	**(56)**	(50)
Net cashflow	**(190)**	(112)
Issue of share capital	**4**	27
Net movement of debt	**1**	(1)
Corporate activity	**(302)**	(167)
Cash movement	**(487)**	(253)
Represented by:		
Movement in cash and cash equivalents	**(31)**	189
Sales of other investments	**(456)**	(442)
	(487)	(253)

The underlying Group operating cashflow was £612m, an increase of 14% over 2010. The improvement in operating cashflow was due to an 8% increase in premium cashflows across the Group. Operating cashflow of £530m was adversely impacted by £95m of claim payments in respect of the December 2010 freeze while inflows on our programme of equity hedges were £13m (2010: outflow of £23m).

Tax paid of £227m and interest paid of £116m are both in line with 2010. Dividends paid are £57m higher than the prior year reflecting the 7% increase in the 2010 final dividend and the lower scrip take up.

Corporate activity is £302m and represents the completion of the acquisition of GCAN in Canada in January 2011 and a number of small acquisitions across the Group.

Loss development tables

The table below presents the general insurance claims provisions net of reinsurance for the accident years 2001 and prior through to 2011. The top half of the table shows the estimate of cumulative claims at the end of the initial accident year and how these have developed over time. The bottom half of the table shows the value of claims paid for each accident year in each subsequent year. The current year provision for each accident year is calculated as the estimate of cumulative claims at the end of the current year less the cumulative claims paid.

We have experienced positive prior year development in all regions. In terms of accident year, 2010 has initially deteriorated by £36m, which primarily comprises £13m of late reported claims in the UK, from last year's winter freeze, and £17m from Italy. The earlier years continue to develop positively, with the 2006 to 2009 years showing stronger positive trends after initial smaller positive or negative development. 2001 and prior accident years generated £103m of positive prior year development driven by strong contributions in Scandinavian Personal Motor, Personal Accident and Workers' Compensation, as well as UK Marine. Across the other accident years, in addition to Scandinavian Personal lines, we have experienced consistent positive development from UK Property, Liability and Commercial Motor and Canadian Motor and Liability.

	2001 and prior	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Estimate of cumulative claims												
At end of accident year	7,633	2,687	2,484	2,325	2,498	2,521	2,624	2,678	2,571	2,718	2,996	
1 year later	7,920	2,636	2,514	2,189	2,368	2,503	2,622	2,681	2,607	2,754		
2 years later	8,006	2,631	2,425	1,995	2,278	2,406	2,596	2,673	2,578			
3 years later	8,364	2,607	2,312	1,908	2,202	2,320	2,532	2,645				
4 years later	8,410	2,523	2,251	1,840	2,117	2,266	2,487					
5 years later	8,923	2,500	2,190	1,790	2,053	2,244						
6 years later	8,863	2,466	2,167	1,754	2,027							
7 years later	8,787	2,431	2,107	1,709								
8 years later	8,736	2,400	2,094									
9 years later	8,685	2,380										
10 years later	8,582											
2011 movement	103	20	13	45	26	22	45	28	29	(36)		295
Claims paid												
1 year later	2,418	1,111	906	733	970	1,013	1,177	1,336	1,304	1,439		
2 years later	1,209	358	304	265	299	358	374	398	412			
3 years later	1,063	269	214	186	173	195	272	257				
4 years later	576	174	112	143	144	177	169					
5 years later	416	96	93	91	104	120						
6 years later	271	75	65	73	83							
7 years later	295	54	52	27								
8 years later	237	59	27									
9 years later	168	22										
10 years later	142											
Cumulative claims paid	6,795	2,218	1,773	1,518	1,773	1,863	1,992	1,991	1,716	1,439		
Current year provision before discounting	**1,787**	**162**	**321**	**191**	**254**	**381**	**495**	**654**	**862**	**1,315**	**2,996**	**9,418**
Exchange adjustment to closing rates												**(92)**
Discounting												**(613)**
Annuity reserves												**613**
Present value recognised in the statement of financial position												**9,326**

Asbestos reserves

The technical provisions include £809m (31 December 2010: £857m) for asbestos in the UK comprising £759m (31 December 2010: £783m) for UK risks and £50m (31 December 2010: £74m) for US risks written in the UK. The reduction of £24m in the reserve net of reinsurance for UK risks compared with 2010, primarily reflects the impact of claims settled in the year and the reduction of £24m for US risks written in the UK mainly reflects the settlement of a number of direct and inwards reinsurance relationships during the year, in addition to foreign exchange movements. As in previous years, and as a standard part of our reserving practices, these asbestos provisions have been reviewed by external consultants. These provisions can be analysed by survival ratio. Survival ratio is an industry standard measure of a company's reserves, expressing the number of years that carried reserves will be available if the recent year payment or notification levels continue. The following table outlines the asbestos provisions as at 31 December 2011 analysed by risk and survival ratio:

	Total	UK risks written in the UK	US risks written in the UK
Provisions in £m			
Net of reinsurance	**809**	**759**	**50**
Net of discount	**416**	**383**	**33**
Survival ratios (Gross of discount) - On payment			
One year	**30**	**32**	**15**
Three year average	**28**	**32**	**12**
Survival ratios (Gross of discount) - On notifications			
One year	**23**	**22**	**47**
Three year average	**29**	**31**	**15**

One year average ratios are inherently more volatile and impacted by the size and timing of claims payments in the year, with the three year average providing a more stable benchmark. For UK risks written in the UK, the paid survival ratios have remained stable, with the incurred survival ratio being impacted by an increase in notifications in 2011 compared with 2010. We continue to monitor notification levels closely and do not believe that increased notifications in one year in isolation represent a significant change to expected longer term trends. For US risks written in the UK, the remaining reserves are relatively small in total and will therefore be particularly sensitive to changes in notifications or the size and timing of claims payments during the year.

REGIONAL ANALYSIS OF INSURANCE OPERATIONS

12 MONTHS TO 31 DECEMBER

	Net written premiums		Increase as reported	Increase at constant exchange
	2011	2010		
	£m	£m	%	%
International	**3,921**	3,536	11	9
UK	**3,087**	2,925	6	6
Emerging Markets	**1,103**	964	14	15
Group Re	**27**	30	(10)	(10)
Total Group	**8,138**	7,455	9	8

	Underwriting result		**Investment result**		**Insurance result**	
	2011	2010	**2011**	2010	**2011**	2010
	£m	£m	**£m**	£m	**£m**	£m
International	**341**	325	**311**	244	**652**	569
UK	**40**	(95)	**270**	244	**310**	149
Emerging Markets	**3**	12	**65**	53	**68**	65
Group Re	**(9)**	(4)	**(4)**	(3)	**(13)**	(7)
Total Group	**375**	238	**642**	538	**1,017**	776

	Operating ratios					
	2011			2010		
	Claims	**Expenses**	**Combined**	Claims	Expenses	Combined
	%	**%**	**%**	%	%	%
International	**67.5**	**23.5**	**91.0**	67.9	22.7	90.6
UK	**67.5**	**30.7**	**98.2**	71.5	30.7	102.2
Emerging Markets	**56.6**	**42.1**	**98.7**	56.0	42.7	98.7
Total Group	**66.3**	**28.6**	**94.9**	68.0	28.4	96.4

INVESTMENT RESULT BY REGION

12 MONTHS TO 31 DECEMBER 2011

	International	UK	Emerging Markets	Group Re	**Group**
	£m	£m	£m	£m	**£m**
Investment income	278	236	52	13	**579**
Realised gains	98	83	18	2	**201**
Unrealised gains/(losses), impairments and foreign exchange	(21)	(18)	(4)	(1)	**(44)**
Unwind of discount including ADC	(44)	(31)	(1)	(18)	**(94)**
Investment result	**311**	**270**	**65**	**(4)**	**642**

The total investment income is allocated to the regions based on economic capital requirements. Realised gains, unrealised losses and impairment losses are allocated with reference to the above amounts. The unwind of discount is attributed on an actual basis.

INTERNATIONAL INSURANCE OPERATIONS

12 MONTHS TO 31 DECEMBER

	Net written premiums		Underwriting result		Operating ratio	
	2011	2010	**2011**	2010	**2011**	2010
	£m	£m	**£m**	£m	**%**	%
Personal						
Scandinavia	**982**	931	**248**	199	**75.0**	78.5
Canada	**1,012**	932	**74**	49	**92.3**	94.2
Other Europe	**417**	369	**(24)**	(8)	**106.3**	101.3
Total Personal	**2,411**	2,232	**298**	240	**87.6**	88.8
Commercial						
Scandinavia	**842**	793	**16**	55	**98.0**	93.6
Canada	**471**	313	**42**	31	**89.8**	88.3
Other Europe	**197**	198	**(15)**	(1)	**107.4**	102.2
Total Commercial	**1,510**	1,304	**43**	85	**96.8**	94.0
Total						
Scandinavia	**1,824**	1,724	**264**	254	**85.4**	85.4
Canada	**1,483**	1,245	**116**	80	**91.6**	92.8
Other Europe	**614**	567	**(39)**	(9)	**106.6**	101.5
Total International	**3,921**	3,536	**341**	325	**91.0**	90.6

UK INSURANCE OPERATIONS

12 MONTHS TO 31 DECEMBER

	Net written premiums		Underwriting result		Operating ratio	
	2011	2010	**2011**	2010	**2011**	2010
	£m	£m	**£m**	£m	**%**	%
Personal						
Household	**653**	589	**57**	(24)	**90.4**	103.9
Motor	**514**	573	**-**	(31)	**100.7**	105.0
Pet	**197**	79	**3**	1	**96.1**	98.9
Total UK Personal	**1,364**	1,241	**60**	(54)	**95.7**	103.9
Commercial						
Property	**580**	604	**(23)**	(38)	**105.0**	104.2
Liability	**294**	302	**10**	13	**97.8**	94.8
Motor	**556**	508	**(30)**	(48)	**104.8**	109.7
Marine	**293**	270	**23**	32	**91.1**	89.4
Total UK Commercial	**1,723**	1,684	**(20)**	(41)	**100.0**	101.1
Total UK	**3,087**	2,925	**40**	(95)	**98.2**	102.2

ESTIMATION TECHNIQUES, RISKS, UNCERTAINTIES AND CONTINGENCIES

Introduction

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

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

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

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

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

Estimation techniques

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

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

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

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

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

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

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

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

The pension assets and pension and post retirement liabilities are calculated in accordance with International Accounting Standard 19 (IAS 19). The assets, liabilities and income statement charge, calculated in accordance with IAS 19, are sensitive to the assumptions made from time to time, including inflation, interest rate, investment return and mortality. IAS 19 compares, at a given date, the current market value of a pension fund's assets with its long term liabilities, which are calculated using a discount rate in line with yields on 'AA' rated bonds of suitable duration and currency. As such, the financial position of a pension fund on this basis is highly sensitive to changes in bond rates and will also be impacted by changes in equity markets.

Uncertainties and contingencies

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

- uncertainty as to whether an event has occurred which would give rise to a policyholder suffering an insured loss;
- uncertainty as to the extent of policy coverage and limits applicable;
- uncertainty as to the amount of insured loss suffered by a policyholder as a result of the event occurring; 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 contract liabilities is an inherently uncertain process and, as a consequence of this uncertainty, the eventual cost of settlement of outstanding claims and unexpired risks can vary substantially from the initial estimates, particularly for the Group's long tail lines of business. The Group seeks to provide appropriate levels of provisions for losses and loss adjustment expenses and provision for unexpired risks taking the known facts and experience into account.

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

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

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

Asbestos and environmental claims

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

Factors contributing to this higher degree of uncertainty include:

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

Potential change in discount rate for lump-sum damages awards

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

Acquisitions and disposals

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

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

Contracts with third parties

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

Litigation, disputes and investigations

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

Reinsurance

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

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

Investment risk

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

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

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

Rating environment

The ability of the Group to write certain types of insurance business is dependent on the maintenance of the appropriate credit ratings from the rating agencies. The Group has the objective of maintaining single 'A' ratings. At the present time the ratings are 'A' (positive outlook) from S&P, improved from 'A' (stable outlook) in December 2010, 'A' (stable outlook) from AM Best and 'A2' (stable outlook) from Moody's. A worsening in the ratings could have an adverse impact on the ability of the Group to write certain types of general insurance business.

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

Foreign exchange risk

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

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

Regulatory environment

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

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

Condensed Consolidated Financial Statements

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CONDENSED CONSOLIDATED INCOME STATEMENT

STATUTORY BASIS

	12 Months 2011 (audited) £m	12 Months 2010 (audited) £m
Income		
Gross written premiums	**9,131**	8,448
Less: reinsurance premiums	**(993)**	(993)
Net written premiums	**8,138**	7,455
Change in the gross provision for unearned premiums	**(273)**	(250)
Less: change in provision for unearned premiums, reinsurers' share	**(9)**	(26)
Change in provision for unearned premiums	**(282)**	(276)
Net earned premiums	**7,856**	7,179
Net investment return	**745**	629
Other operating income	**134**	116
Total income	**8,735**	7,924
Expenses		
Gross claims incurred	**(5,595)**	(6,700)
Less: claims recoveries from reinsurers	**382**	1,816
Net claims and benefits	**(5,213)**	(4,884)
Underwriting and policy acquisition costs	**(2,399)**	(2,171)
Unwind of discount including ADC	**(94)**	(94)
Other operating expenses	**(291)**	(177)
Total expenses	**(7,997)**	(7,326)
Finance costs	**(117)**	(118)
Gains/(losses) on disposal of subsidiaries	**1**	(1)
Net share of loss after tax of associates	**(9)**	(5)
Profit before tax	**613**	474
Income tax expense	**(186)**	(119)
Profit after tax	**427**	355
Attributable to:		
Equity holders of the Parent Company	**426**	346
Non controlling interests	**1**	9
Profit after tax	**427**	355
Earnings per share on profit attributable to the ordinary shareholders of the Parent Company:		
Basic	**11.9p**	9.8p
Diluted	**11.8p**	9.7p

The attached notes are an integral part of these condensed consolidated financial statements. For dividend information refer to note 8.

RSA

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

STATUTORY BASIS

	12 Months 2011 (audited) £m	12 Months 2010 (audited) £m
Profit after tax	**427**	355
Exchange (losses)/gains net of tax	**(70)**	53
Fair value gains net of tax	**26**	46
Pension fund actuarial (losses)/gains net of tax	**(63)**	58
Other comprehensive (expense)/income for the period, net of tax	**(107)**	157
Total comprehensive income for the period	**320**	512
Attributable to:		
Equity holders of the Parent Company	**318**	502
Non controlling interests	**2**	10
	320	512

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

STATUTORY BASIS

	Shareholders' funds £m	**Non controlling interests £m**	**Total equity £m**
Balance at 1 January 2011	**3,766**	**129**	**3,895**
Total comprehensive income for the period	**318**	**2**	**320**
Share issue	**25**	**-**	**25**
Changes in shareholders' interests in subsidiaries	**5**	**1**	**6**
Share based payments	**12**	**-**	**12**
Prior year final dividend	**(198)**	**(18)**	**(216)**
Current year interim dividend	**(118)**	**-**	**(118)**
Preference dividend	**(9)**	**-**	**(9)**
Balance at 31 December 2011	**3,801**	**114**	**3,915**
Balance at 1 January 2010	3,491	97	3,588
Total comprehensive income for the period	502	10	512
Share issue	67	23	90
Changes in shareholders' interests in subsidiaries	(24)	3	(21)
Share based payments	29	-	29
Prior year final dividend	(182)	(4)	(186)
Current year interim dividend	(108)	-	(108)
Preference dividend	(9)	-	(9)
Balance at 31 December 2010	3,766	129	3,895

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

RSA

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

STATUTORY BASIS

	31 December 2011 (audited) £m	31 December 2010 (audited) £m
Assets		
Goodwill and other intangible assets	**1,359**	1,209
Property and equipment	**275**	287
Investment property	**362**	374
Investment in associates	**29**	38
Financial assets	**12,838**	13,098
Total investments	**13,229**	13,510
Reinsurers' share of insurance contract liabilities	**2,073**	2,652
Insurance and reinsurance debtors	**3,328**	3,137
Current tax assets	**33**	33
Deferred tax assets	**249**	204
Other debtors and other assets	**777**	744
	1,059	981
Cash and cash equivalents	**1,258**	1,317
	22,581	23,093
Assets held for sale*	**17**	11
Total assets	**22,598**	23,104
Equity and liabilities		
Equity		
Shareholders' funds	**3,801**	3,766
Non controlling interests	**114**	129
Total equity	**3,915**	3,895
Liabilities		
Loan capital	**1,313**	1,315
Insurance contract liabilities	**14,766**	15,140
Insurance and reinsurance liabilities	**602**	656
Borrowings	**298**	298
Current tax liabilities	**104**	158
Deferred tax liabilities	**102**	42
Provisions	**389**	389
Other liabilities	**1,109**	1,211
Provisions and other liabilities	**1,704**	1,800
Total liabilities	**18,683**	19,209
Total equity and liabilities	**22,598**	23,104

These condensed consolidated financial statements have been approved for issue by the Board of Directors on 22 February 2012.

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

* Assets held for sale relate to property in Scandinavia and Canada.

CONDENSED CONSOLIDATED STATEMENT OF CASHFLOWS

STATUTORY BASIS

	12 Months 2011 (audited) £m	12 Months 2010 (audited) £m
Cashflows from operations	**104**	96
Tax paid	**(227)**	(215)
Investment income	**597**	578
Interest paid	**(116)**	(115)
Dividends received from associates	**1**	2
Pension deficit funding	**(56)**	(50)
Net cashflows from operating activities	**303**	296
Proceeds from sales or maturities of:		
Financial assets	**4,432**	4,120
Investment property	**11**	78
Property and equipment	**14**	-
Investments in subsidiaries (net of cash disposed of)	**6**	(74)
Purchase or settlement of:		
Financial assets	**(3,983)**	(3,720)
Investment property	**(3)**	(39)
Property and equipment	**(37)**	(31)
Intangible assets	**(159)**	(133)
Investments in subsidiaries (net of cash acquired)	**(299)**	(86)
Net cashflows from investing activities	**(18)**	115
Proceeds from issue of share capital	**4**	27
Dividends paid to ordinary shareholders	**(294)**	(237)
Dividends paid to preference shareholders	**(9)**	(9)
Dividends paid to non controlling interests	**(18)**	(2)
Net movement in other borrowings	**1**	(1)
Net cashflows from financing activities	**(316)**	(222)
Net (decrease)/increase in cash and cash equivalents	**(31)**	189
Cash and cash equivalents at beginning of the year	**1,314**	1,105
Effect of exchange rate changes on cash and cash equivalents	**(25)**	20
Cash and cash equivalents at the end of the period	**1,258**	1,314

A reconciliation of cash and cash equivalents at the end of the period to the condensed consolidated statement of financial position is included in note 6.

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

EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Changes in significant accounting policies

There have been no significant changes in accounting policy and methods of computation in the 12 months to 31 December 2011. A full list of other accounting policies applied in these condensed financial statements can be found in the 2011 Annual Report and Accounts (see note 10 below).

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.

2. Operating segments

12 months ended 31 December 2011

	International	**UK**	**Emerging Markets**	**Central Functions**	**Group**
	£m	**£m**	**£m**	**£m**	**£m**
Net written premiums	**3,921**	**3,087**	**1,103**	**27**	**8,138**
Underwriting result	**341**	**40**	**3**	**(9)**	**375**
Investment result	**311**	**270**	**65**	**(4)**	**642**
Insurance result	**652**	**310**	**68**	**(13)**	**1,017**
Other activities	**(10)**	**2**	**(42)**	**(83)**	**(133)**
Operating result (management basis)	**642**	**312**	**26**	**(96)**	**884**
Interest costs					**(117)**
Amortisation and impairment of intangible assets					**(114)**
Solvency II costs					**(30)**
Acquisitions and disposals					**(10)**
Profit before tax (per condensed consolidated income statement)					**613**
Combined operating ratio (%)	**91.0**	**98.2**	**98.7**	**-**	**94.9**

12 months ended 31 December 2010

	International	UK	Emerging Markets	Central Functions	Group
	£m	£m	£m	£m	£m
Net written premiums	3,536	2,925	964	30	7,455
Underwriting result	325	(95)	12	(4)	238
Investment result	244	244	53	(3)	538
Insurance result	569	149	65	(7)	776
Other activities	(12)	-	(46)	(77)	(135)
Operating result (management basis)	557	149	19	(84)	641
Interest costs					(118)
Amortisation and impairment of intangible assets					(29)
Solvency II costs					(5)
Reorganisation costs					(5)
Acquisitions and disposals					(10)
Profit before tax (per condensed consolidated income statement)					474
Combined operating ratio (%)	90.6	102.2	98.7	-	96.4

The Group’s results are not subject to any significant impact arising from the seasonality or cyclicality of operations, although there is some seasonality in the regions within which the Group operates.

The information above (including the 2010 comparative data) has been prepared on the same basis as reported in the 2011 Annual Report and Accounts.

3. Earnings per share

The earnings per share is calculated by reference to the result attributable to the ordinary shareholders of the Parent Company and the weighted average number of shares in issue during the period. On a basic and diluted basis this was 3,511,179,557 and 3,541,003,312 respectively (excluding those held in ESOP and SIP trusts). The number of shares in issue at 31 December 2011 was 3,525,507,432 (excluding those held in ESOP and SIP trusts).

4. Changes in estimates of amounts reported in prior financial years

During 2011, changes to claims reserve estimates made in prior years as a result of reserve development is included in the prior year profit of £229m (2010: £267m).

The Group pension fund deficit net of tax as at 31 December 2011 is £140m (31 December 2010: deficit of £142m). Further information on the movement in pension fund is included on page 14.

5. Ordinary share and loan issues and repayments during the year

During 2011, 18,409,921 (2010: 34,641,792) ordinary shares were issued on the exercise of employee share options. The Company also issued 16,660,432 (2010: 41,135,898) ordinary shares under the scrip scheme approved by the shareholders at the 2009 Annual General Meeting.

6. Cashflow

	2011 **£m**	2010 £m
Cash and cash equivalents (as reported within the condensed statement of cashflows)	**1,258**	1,314
Add: bank overdrafts	**-**	3
Total cash and cash equivalents	**1,258**	1,317

7. Business combinations and other changes in the structure of the Group

Acquisition of subsidiaries

On 7 January 2011, the Group acquired 100% of the share capital of Glenstone Capital Incorporated in Canada, the holding company of GCAN Insurance Company (now amalgamated into Royal & Sun Alliance Insurance Company of Canada). In addition, a number of smaller business combinations were completed in Canada, the United Kingdom and Colombia during the period. The acquisitions increase the Group's insurance activity in each of the countries. The total consideration paid was £322m and goodwill of £112m arose on these acquisitions.

	Total **£m**
Fair values of identifiable assets acquired and liabilities assumed	
Investments	**341**
Intangible assets (excluding goodwill)	**86**
Other assets	**209**
Cash and cash equivalents	**15**
Insurance contract liabilities	**(366)**
Other liabilities	**(75)**
Net assets acquired	**210**
Cash consideration	**314**
Deferred consideration	**8**
Total consideration paid	**322**
Goodwill on acquisitions	**112**

In addition to the acquisition of share capital, the Group acquired the rights to debt owed by Glenstone Capital Incorporated for consideration of £48m from its former parent.

The fair value of the financial assets acquired, included within other assets, includes premiums and insurance debtors of £32m, a reduction of £1m on their nominal value to take account of balances that are expected to be uncollectable.

Deferred consideration includes consideration which is contingent on the financial performance of the acquired businesses. The fair value of this consideration is estimated at £5m, with the minimum possible payment being £nil and the maximum possible payment being £26m.

During 2011, there were no significant changes in the recognised amounts of contingent consideration, and no changes in the range of outcomes, in respect of business combinations completed in earlier years.

Acquisition related costs for acquisitions concluded during the period (included in other operating expenses in the income statement for the year ended 31 December 2011) amounted to £2m.

If the acquisitions had occurred on 1 January 2011, the contribution to the Group's net written premiums and fee income for the year would have been £132m and the contribution to the Group's profit after tax for the year would have been £20m. The total net written premiums and fee income of the acquired entities since the acquisition dates included in the Group's net written premiums for the year is £117m. The total profit after tax of the acquired entities since the acquisition dates included in the Group's profit for the period is £16m.

The goodwill shown above primarily arises from the premium paid to strengthen the Group's Commercial lines proposition in Canada by adding further technical expertise, geographic diversification and product breadth. Goodwill is further derived from the value of the workforce acquired, the growth from new customers and the significant synergies from reinsurance, capital and expense savings on integration of GCAN into the Group.

Of the total goodwill recognised, £15m is expected to be deductible for income tax purposes.

Disposal of subsidiaries

Disposals completed during the period resulted in a profit to the Group of £1m. The total consideration received in cash was £10m and the cash and cash equivalents included in the businesses sold was £4m. The values of other assets and liabilities disposed were not significant to the Group.

Changes in the carrying value of goodwill during the period were as follows:

	2011 **£m**	2010 £m
Gross goodwill		
At 1 January	**650**	508
Recognised in period	**112**	128
Disposals	**-**	(4)
Impairments	**(71)**	-
Net foreign exchange rate movement	**(28)**	18
At 31 December	**663**	650

Goodwill impairment charges of £71m (2010: £Nil) have been recognised in 2011, split between the UK £41m and Emerging Markets £30m.

In the UK, the impairment losses impact Commercial lines and relate to the acquisitions of Martello in 2006 and Fyfe in 2008, where we have significantly scaled back activity in the economic downturn.

In Emerging Markets, the impairment charge reflects slower economic growth than originally anticipated in the Czech Republic and Poland.

8. Dividends

	31 December 2011		31 December 2010	
	Per share **p**	**Total** **£m**	Per share p	Total £m
Ordinary dividend				
Final paid in respect of prior year	**5.70**	**198**	5.33	182
Interim proposed/paid in respect of current year	**3.34**	**118**	3.12	108
	9.04	**316**	8.45	290
Preference dividend		**9**		9
		325		299

9. Exchange rates

Local currency/£	**12 Months 2011**		12 Months 2010	
	Average	**Closing**	Average	Closing
Canadian Dollar	**1.59**	**1.58**	1.59	1.56
Danish Krone	**8.59**	**8.90**	8.68	8.70
Swedish Krona	**10.41**	**10.65**	11.12	10.52
Euro	**1.15**	**1.20**	1.17	1.17

10. Results for 2011

The financial information set out in this preliminary announcement does not constitute the statutory accounts for the year ended 31 December 2011. The financial information is derived from the statutory accounts for that year which will be delivered to the Registrar of Companies following the Annual General Meeting to be held on 14 May 2012. The independent auditors' report on the Group accounts for the year ended 31 December 2011 is unqualified, does not draw attention to any matters by way of emphasis and does not include a statement under section 498(2) or (3) of the Companies Act 2006.

RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

a) The financial statements within the full Annual Report and Accounts, from which the financial information within this preliminary announcement has been extracted, are 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,

b) The management report within this preliminary announcement includes a fair review of the development and performance of the business and the position of the Group, and

c) The estimation techniques, risks, uncertainties and contingencies section within this preliminary announcement includes a description of the principal risks and uncertainties faced by the Group.

Signed on behalf of the Board

Simon Lee
Chief Executive Officer

22 February 2012

George Culmer
Chief Financial Officer

22 February 2012

SHAREHOLDER INFORMATION

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

Group website

Our corporate website provides shareholders with a broad range of information about our heritage, our social and environmental responsibilities and investor information such as our financial statements, current and historic share prices, AGM materials, events, governance information and answers to frequently asked questions in respect of shareholder matters. You may visit our website at www.rsagroup.com.

Registrar

The Group'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 or alternatively use the Text Relay service by dialling 180001 0121 415 7064 directly from a text phone.

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

Annual General Meeting

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

Electronic communications

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

Scrip dividend scheme

RSA offers shareholders the opportunity to use their dividends to buy more ordinary shares in the Group by participating in the Group's Scrip Dividend Scheme. The Scheme applies to both interim and final dividends and enables shareholders to increase their holding in the Group 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.

FINANCIAL CALENDAR

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

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

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

30 March 2012
Record date for the ordinary final dividend for 2011 and payment date for the first preference dividend for 2012

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

3 May 2012
Announcement of Q1 interim management statement

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

14 May 2012
2012 Annual General Meeting

25 May 2012
Payment of the ordinary final dividend for 2011

APPENDIX 1

PROFORMA SUMMARY CONSOLIDATED INCOME STATEMENT
MANAGEMENT BASIS

	12 Months 2011 £m	12 Months 2010 £m
Net written premiums	**8,138**	7,455
Underwriting result	**375**	238
Investment income	**579**	569
Unwind of discount including ADC	**(94)**	(94)
Investment result	**485**	475
Insurance result	**860**	713
Other activities	**(133)**	(135)
Operating result	**727**	578
Realised gains	**201**	68
Unrealised gains/(losses), impairments and foreign exchange	**(44)**	(5)
Total gains	**157**	63
Interest costs	**(117)**	(118)
Amortisation and impairment of intangible assets	**(114)**	(29)
Solvency II costs	**(30)**	(5)
Reorganisation costs	**-**	(5)
Acquisitions and disposals	**(10)**	(10)
Profit before tax	**613**	474
Taxation	**(186)**	(119)
Profit after tax	**427**	355
Earnings per share on profit attributable to the ordinary shareholders of the Parent Company:		
Basic	**11.9p**	9.8p
Diluted	**11.8p**	9.7p
Operating earnings per share on profit attributable to the ordinary shareholders of the Parent Company:		
Basic	**14.3p**	10.8p
Diluted	**14.2p**	10.7p

The above proforma summary consolidated income statement has been re-stated to exclude realised and unrealised gains from the operating result as described on page 8, and will be used in subsequent periods.

APPENDIX 2

PROFORMA REGIONAL ANALYSIS OF INSURANCE OPERATIONS

12 MONTHS TO 31 DECEMBER

	Net written premiums		**Underwriting Result**		**Operating Ratio**	
	2011	2010	**2011**	2010	**2011**	2010
	£m	£m	**£m**	£m	**%**	%
Scandinavia	**1,824**	1,724	**264**	254	**85.4**	85.4
Canada	**1,483**	1,245	**116**	80	**91.6**	92.8
UK & Western Europe	**3,701**	3,492	**1**	(104)	**99.6**	102.2
Emerging Markets	**1,103**	964	**3**	12	**98.7**	98.7
Group Re	**27**	30	**(9)**	(4)	**-**	-
Total Group	**8,138**	7,455	**375**	238	**94.9**	96.4

The tables above present the segmental information under the new management structure which came into effect on 1 January 2012 (see page 11 for further details).