NEWS

20 February 2013

RSA DELIVERS 5% GROWTH IN PREMIUMS, £684M OPERATING PROFIT AND COMBINED RATIO OF 95.4%

Solid performance, 5% growth[1] in net written premiums

- Net written premiums up 5% on constant exchange rate basis to £8,353m
- Underwriting result flat at £375m (2011: £375m) including negative impact from UK adverse weather and Italian earthquakes in first half; combined operating ratio of 95.4% (2011: 94.9%)
- Investment income of £515m (2011: £579m), ahead of 2012 guidance
- Emerging Markets now represents 10% of insurance result
- Acquisitions in Canada and Argentina completed
- Operating profit of £684m (2011: £727m); Return on equity of 9.1% (2011: 11.5%)

Balance Sheet remains strong with healthy capital surplus

- IGD surplus of £1.2bn; covering capital requirement 1.9 times
- Economic capital surplus of £1.2bn at 99.5% calibration
- Net asset value per share excluding pension deficit of 107p (2011: 108p)

Strategy is delivering – expecting to achieve 10-12% ROE in 2013

- Continued growth in premiums as business expands in Emerging Markets, Canada and Global Specialty Lines
- Further improvements to combined ratio anticipated as reshaping in UK, remediation in Italy and operating leverage in Emerging Markets deliver
- Expect to deliver strong premium growth, a COR of better than 95%, around £470m of investment income and return on equity of between 10 and 12% in 2013
- Confident in prospects for further improvements to ROE and COR in medium term

Recommendation to rebase dividend. Final dividend of 3.90p per share

- Reflects prospects of prolonged low bond yield environment
- Creates sustainable dividend and progressive dividend policy for the future consistent with the anticipated underlying growth in earnings
- Final dividend of 3.90p per share (2011: 5.82p). Board anticipates similar percentage reduction in 2013 interim dividend

Simon Lee, Group Chief Executive of RSA, commented:

"These are a solid set of results demonstrating strong progress in challenging market conditions. We've seen good growth in premiums up 5% to £8.4bn. Operating profits of £684m have been impacted by the Italian earthquakes, extreme wet weather in the UK in the first half of the year and falling bond yields.

"We are continuing to execute our strategy of global growth while maintaining profitability and underwriting quality. In 2012 over 65% of our premiums were from outside the UK and as we move more of the business towards higher growth and higher margin markets, we are optimistic about our future growth prospects.

"We are confident that we can deliver sustainable and ongoing improvements in the combined ratio and return on equity through management actions and we are not dependent on economic or market recovery to deliver these plans.

"We have leading market positions in Scandinavia, Canada, Latin America, Ireland and the UK. These are attractive general insurance markets where we are either already delivering or will deliver strong returns on capital. Where we do not see a route to achieve target returns on capital we will take decisive action.

"The Board's decision to rebase the dividend is a prudent move that will enable us to invest in the opportunities we see for growth and is in the best interests of our shareholders. It is absolutely the right thing to do for the business given the prospect of prolonged low bond yields. The new dividend is appropriate for the business today, sustainable into the future and will allow a progressive dividend policy going forward."

FINANCIAL HIGHLIGHTS	**12 Months 2012**	12 Months 2011
Net written premiums	**£8,353m**	£8,138m
Combined operating ratio	**95.4%**	94.9%
Operating result	**£684m**	£727m
Earnings per share	**9.5p**	11.9p
Final dividend for the year per ordinary share	**3.90p**	5.82p
Dividend for the year per ordinary share	**7.31p**	9.16p
ROE	**9.1%**	11.5%

[1] at constant exchange

KEY FINANCIAL PERFORMANCE DATA

Net written premiums	Personal	2012 £m Commercial	Global Specialty Lines	2012 £m Total	2011 £m Total
Scandinavia	973	589	229	**1,791**	1,824
Canada	1,090	280	244	**1,614**	1,483
Emerging Markets	530	514	193	**1,237**	1,103
UK & Western Europe	1,684	1,290	715	**3,689**	3,701
Group Re	-	22	-	**22**	27
Total net written premiums	**4,277**	**2,695**	**1,381**	**8,353**	8,138

Underwriting performance	Combined Operating Ratio (%) 2012	Combined Operating Ratio (%) 2011	2012 £m	2011 £m
Scandinavia	**86.6**	85.4	**237**	264
Canada	**93.7**	91.6	**98**	116
Emerging Markets	**96.9**	98.7	**33**	3
UK & Western Europe	**99.5**	99.6	**12**	1
Group Re	**-**	-	**(5)**	(9)
Total underwriting performance	**95.4**	**94.9**	**375**	375

	2012	2011
Investment result		
Investment income	**515**	579
Unwind of discount	**(84)**	(94)
Total investment result	**431**	485
Insurance result	**806**	860
Other activities	**(122)**	(133)
Operating result	**684**	727
Profit before tax	**479**	613
Profit after tax	**351**	427
Operating earnings per share – diluted (pence)	**10.5**	11.2
Operating earnings per share – basic (pence)	**10.7**	11.3
Earnings per share – diluted (pence)	**9.4**	11.8
Earnings per share – basic (pence)	**9.5**	11.9
Dividend per share (pence)	**7.31**	9.16
Net asset value per share – incl IAS19 pension deficit (pence)	**101**	104
Net asset value per share – excl IAS19 pension deficit (pence)	**107**	108
Tangible Net asset value per share – incl IAS19 pension deficit (pence)	**60**	66
Tangible Net asset value per share – excl IAS19 pension deficit (pence)	**65**	70
Return on equity (%)	**9.1**	11.5
Return on tangible equity (%)	**14.5**	17.1
IGD Surplus (£bn)	**1.2**	1.3
IGD Coverage ratio (%)	**1.9**	2.0
ECA Surplus (1 in 200 year calibration) (£bn)	**1.2**	1.2
ECA Surplus (1 in 1,250 year calibration) (£bn)	**0.7**	0.8

MANAGEMENT REPORT - 2012 REVIEW

12 months ended 31 December 2012

	Scandi-navia	Canada	Emerg-ing Markets	UK & Western Europe	Central Functions	**Group 2012**	Group 2011
	£m	£m	£m	£m	£m	**£m**	£m
Net written premiums	1,791	1,614	1,237	3,689	22	**8,353**	8,138
Underwriting result	237	98	33	12	(5)	**375**	375
Investment result	94	61	45	233	(2)	**431**	485
Insurance result	**331**	**159**	**78**	**245**	**(7)**	**806**	860
Other activities	(9)	(7)	(32)	(1)	(73)	**(122)**	(133)
Operating result (management basis)	**322**	**152**	**46**	**244**	**(80)**	**684**	727
Interest costs						**(115)**	(117)
Realised gains/(losses)						**79**	201
Unrealised (losses)/gains, impairments and foreign exchange						**(51)**	(44)
Amortisation and impairment of intangible assets						**(42)**	(114)
Solvency II costs						**(32)**	(30)
Acquisitions and disposals						**(20)**	(10)
Reorganisation costs						**(24)**	-
Profit before tax (per condensed consolidated income statement)						**479**	613
Combined operating ratio (%)	86.6	93.7	96.9	99.5	-	**95.4**	94.9

In 2012, net written premiums were up 5% at constant exchange rates (3% as reported) to £8,353m (2011: £8,138m as reported; £7,979m at constant exchange). Premium growth comprised 4% from rate increases on renewed business, 1% from inorganic activity offset by a 2% reduction from foreign exchange. On a reported basis, strong growth of 12% and 9% in Emerging Markets and Canada respectively was offset by a 2% reduction in Scandinavia (due exclusively to FX effects). Premiums were flat in UK and Western Europe, where underlying growth in the UK and Ireland was offset by targeted premium reductions in both UK personal motor and Italy. Our focus on Global Specialty Lines (GSL) in all regions continues with premiums up 8% to £1,381m and a combined ratio of 94.3% (2011: 94.7%).

Underwriting result is flat at £375m (2011: £375m) with a current year profit up 26% to £184m (2011: £146m) and a prior year result of £191m (2011: £229m). The Group combined operating ratio (COR) is 95.4% (2011: 94.9%) and includes adverse UK weather in the first half and earthquakes in Italy in May. The material adverse UK weather in the first half of 2012 was partly offset by benign weather experience in the rest of the Group during 2012. Taken together, weather and subsidence affected the COR by 2.2% (2011: 2.4%), including adverse UK weather which affected the COR by 0.8% (2011: nil). Whilst long term weather averages are largely unchanged, we have increased our planning assumptions for weather effects to 2.2% to reflect the relatively severe weather impact in more recent years. Large losses affected the COR by 7.0% (2011: 7.0%), which is in line with long term averages, even including the effect of the Italian earthquakes. Prior year profits benefited the COR by 2.2% (2011: 2.8%). We have maintained our prudent reserving policy and anticipate positive prior year development to continue to be a significant contributor to profit in the future.

The investment result is down 11% to £431m (2011: £485m) due to the continued effect of falling bond yields on investment income. Investment income of £515m (2011: £579m), is ahead of previous guidance.

The insurance result of £806m (2011: £860m) includes a significant 44% increase in the contribution from Emerging Markets to £78m (2011: £54m) which now represents 10% of the insurance result. The contribution from UK & Western Europe was flat at £245m (2011: 246m) and represented 30% of the insurance result. The contributions from Canada and Scandinavia were £159m and £331m (2011: £187m and £387m) which represented 19% and 41% of the insurance result respectively.

The operating result is £684m (2011: £727m). Profit before tax is £479m (2011: £613m), with 2011 reflecting high levels of realised gains on the sale of equity investments. Profit after tax is £351m (2011: £427m). The return on equity is 9.1% (2011: 11.5%)

The Group's capital position remains healthy with an IGD surplus of £1.2bn (2011: £1.3bn) covering the capital requirement 1.9 times (2011: 2.0 times) and economic capital of £1.2bn (2011: £1.2bn) (on a 1 in 200 year calibration).

Strategy

Our strategy is unchanged and we continue to deliver against it. We are a pure play general insurer and aim to outperform in each of our chosen markets through leveraging our strengths in our people, underwriting, distribution and claims management. The delivery of our strategy is based around some fundamental principles.

We manage the business with a firm operational grip. RSA is a diverse business with operations in 32 countries and sells insurance across multiple product lines in over 140 countries. Over many years we have created processes and systems which ensure that local, regional and central management have excellent visibility of and accountability for performance. This structure ensures that issues arising are dealt with quickly and decisively. At the centre we deploy rigorous performance management with each business subject to a detailed quarterly performance review and annual strategy review.

This approach to operational management is supplemented by our commitment to prudent financial management. We consistently reserve our business to create prudency in our insurance liabilities which has led to a consistent track record of positive prior year development. We apply a high quality, low risk investment strategy. We make prudent use of reinsurance, which protects the business from extreme natural catastrophes, such that combined ratios have been very stable over many years.

Our strategy is to maximise returns on capital in mature markets and to have the flexibility to increase capital allocation to growth markets. Our unique geographic footprint gives us exposure to some of the most attractive general insurance markets in the world. In many of these territories, we have achieved a leading market position which creates economies of scale and distribution strength. In other markets, we have opportunities to grow both organically and through selective bolt-on acquisitions. Furthermore, all of our businesses benefit from being part of a leading global insurer, which provides them with competitive advantage over local operators.

Outlook and Financial Targets

We are excited by the prospects for the business. We expect to continue to grow net written premiums across the business and anticipate strong premium growth in 2013. In Emerging Markets we continue to see opportunities to grow our franchises in Latin America, Asia, the Middle East and Central and Eastern Europe both organically and inorganically. Through organic growth, we expect to increase the size of our Emerging Markets business, including our associates, to £2.2bn of net written premiums by 2015, creating operational leverage and an improving expense ratio with a consequent improvement in combined ratio. Where we cannot see a route to outperformance we will take action to exit markets, as we have done in 2012 in the Czech Republic and Dutch Caribbean.

In Canada, we expect to see further market consolidation which will allow us to continue to grow market share and consolidate our position as one of the top three general insurers. We aim to grow the business both organically and through selective bolt on acquisitions. We expect the Scandinavian markets to grow in line with local economic growth and our businesses to grow in line with the market. We expect Canadian and Scandinavian combined ratios to continue at around current levels over the medium term.

In the UK, we are reshaping the portfolio in a challenging environment and expect underlying growth in our chosen segments to be broadly offset by reductions in less profitable business lines. We expect this will lead to a trend of improving combined ratios in the UK over the next three years. Italy is on track to be trading on a break even basis during 2013 and Ireland is expected to continue to grow both premiums and profit.

We will, however, continue to see the effect of falling investment yields on investment income and expect to deliver around £470m of investment income in 2013. Assuming the current yield environment persists beyond 2013, we expect the fall in investment income to continue, but to be less severe over the next three years.

Overall, we expect to achieve a combined ratio of better than 95% in 2013 and deliver return on equity of between 10 and 12% with further improvements in both of these metrics in the medium term.

Dividend

Earnings in recent years have been reduced by the material fall in bond yields which has led to a situation where our dividend payout ratio was becoming unsustainable, and creating a constraint on our ability to invest in future growth opportunities.

After taking into consideration the expectation of a prolonged low bond yield environment, the need for a more sustainable dividend going forward and more opportunities to continue to develop and grow our businesses outside the UK in the coming years, the Board is recommending a final dividend for 2012 which will be 33% lower than that of the prior year. The Board expects to recommend a similar change in the interim dividend for 2013 versus 2012. Thereafter, the Group intends to pursue a progressive dividend policy in line with the anticipated underlying growth in earnings. We intend to continue to offer the option of a scrip dividend.

Simon Lee
Group Chief Executive

BUSINESS REVIEW - SCANDINAVIA

	Net written premiums		Underwriting result		Change[1]	
	2012	2011	**2012**	2011	**NWP**	**U/W Result**
	£m	£m	**£m**	£m	**%**	**%**
Personal						
Household	**298**	309	**(10)**	(35)	**1**	**70**
Motor	**391**	398	**124**	147	**2**	**(13)**
Personal Accident and Other	**284**	275	**80**	136	**7**	**(39)**
Total Scandinavia Personal	**973**	982	**194**	248	**3**	**(20)**
Commercial						
Property	**306**	328	**(5)**	(20)	**(2)**	**74**
Liability	**126**	128	**44**	17	**4**	**175**
Motor	**218**	227	**(4)**	(3)	**-**	**(33)**
Marine and Other	**168**	159	**8**	22	**11**	**(62)**
Total Scandinavia Commercial	**818**	842	**43**	16	**2**	**187**
Total Scandinavia	**1,791**	1,824	**237**	264	**3**	**(7)**

Investment result	**2012**	2011	**Change**
	£m	£m	**%**
Investment income	**133**	166	**(20)**
Unwind of discount	**(39)**	(43)	**9**
Scandinavia investment result	**94**	123	**(24)**

Scandinavia insurance result	**331**	387	**(14)**

Operating Ratios (%)	Claims		Expenses		Combined	
	2012	2011	**2012**	2011	**2012**	2011
Personal						
Household					**103.6**	111.3
Motor					**68.3**	64.2
Personal Accident and Other					**71.4**	49.8
Total Scandinavia Personal	**64.2**	59.7	**15.9**	15.3	**80.1**	75.0
Commercial						
Property					**102.0**	105.7
Liability					**64.3**	86.7
Motor					**102.1**	101.8
Marine and Other					**94.1**	87.3
Total Scandinavia Commercial	**71.9**	77.2	**22.7**	20.8	**94.6**	98.0
Total Scandinavia	**67.7**	67.6	**18.9**	17.8	**86.6**	85.4

Rate Increases (%)	**Personal**		**Commercial**		
Scandinavia	**Motor**	**Household**	**Motor**	**Liability**	**Property**
Dec 12 vs Dec 11	3	12	5	4	1
Sept 12 vs Sept 11	2	12	4	-	6
Jun 12 vs Jun 11	2	7	4	4	1
Mar 12 vs Mar 11	2	6	5	5	4
Dec 11 vs Dec 10	2	8	7	7	1

[1] at constant exchange rate

SCANDINAVIA – CONTINUING TO DELIVER EXCELLENT RETURNS – COR OF 86.6%

RSA is the third largest P&C insurer in Sweden and Denmark, with a growing presence in Norway. In all three countries we offer a range of products across Personal and Commercial lines, with particular strengths in Swedish Personal Accident, Swedish Personal Motor, Danish Renewable Energy and Care.

Net written premiums in Scandinavia were up 3% on a constant exchange rate basis to £1,791m (2011: £1,824m as reported; £1,744m at constant exchange) with solid growth across most major product lines. New business volumes more than offset lapses which together with solid rate increases across all products led to the growth in premiums. Strong growth in Norway (premiums up 23% at constant exchange) and good growth in Sweden (up 3% at constant exchange) was partly offset by a decline in premiums in Denmark (down 2% at constant exchange) where we have been focused on improving profitability. Swedish underwriting profit was down but remained strong at £157m with a COR of 83.5%. We saw good improvements in Denmark with an underwriting result of £75m and a COR of 88.9%, whilst in Norway the underwriting result improved to £5m with a COR of 96.4%.

Scandinavian underwriting profit was £237m (2011: 264m). A strong current year underwriting result together with continued positive prior year development led to a combined operating ratio of 86.6% (2011: 85.4%). The claims ratio was stable at 67.7% (2011: 67.6%) whilst the expense ratio increased, primarily reflecting the investments we are making in new systems in Denmark. After including investment returns of £94m (2011: £123m), the insurance result was £331m (2011: £387m).

Personal net written premiums of £973m were up 3% on a constant exchange rate basis (2011: £982m as reported; £942 at constant exchange). Household premiums were up 1% with strong rate increases throughout the year, leading to an improved combined ratio of 103.6% (2011: 111.3%). Personal Motor premiums were up 2% to £391m (2011: £398m as reported; £382 at constant exchange) including 31% growth in Norway as we benefit from our distribution deal with the Norwegian Automobile Federation. The Personal Motor COR was 68.3% (2011: 64.2%) with continued strong performances in both current year and prior year in Sweden leading to a Scandinavian Personal Motor underwriting result of £124m (2011: £147m). In Personal Accident we have a leading position in Sweden. Premiums were up 7% but underwriting profits were down 39% to £80m (2011: £136m) due to lower positive prior year development.

Commercial net written premiums of £818m were up 2% on a constant exchange rate basis (2011: £842m as reported; £802 at constant exchange). Commercial Property premiums were down 2% whilst the underwriting result improved to a £5m underwriting loss (2011: £20m underwriting loss) due to fewer weather events and lower large losses in 2012. Commercial Liability premiums were flat at constant exchange but the underwriting result improved to £44m (2011: £17m) with improved contributions across all three markets. Commercial Motor premiums were flat at constant exchange and the combined ratio was stable at 102.1% (2011: 101.8%) as claims inflation was offset by rate increases. Marine performance was in line with 2011 whilst Care profitability was down mainly due to the exceptionally low COR in Danish Care in 2011.

Scandinavia – Outlook

We expect the Scandinavian markets to continue to grow in line with local GDP growth. We expect to grow in line with the market in Sweden and Denmark whilst continuing to build market share in Norway. We expect continued strong levels of profitability as we benefit from our established market positions across Personal, Commercial and Specialty.

BUSINESS REVIEW - CANADA

	Net written premiums		Underwriting result		Change[1]	
	2012	2011	**2012**	2011	**NWP**	**U/W Result**
	£m	£m	**£m**	£m	**%**	**%**
Personal						
Household	**396**	349	**26**	(1)	**13**	**n/a**
Motor	**694**	663	**17**	75	**4**	**(77)**
Total Canada Personal	**1,090**	1,012	**43**	74	**7**	**(42)**
Commercial						
Property	**233**	208	**-**	1	**11**	**(100)**
Liability	**139**	127	**38**	29	**9**	**27**
Motor	**95**	85	**11**	8	**10**	**38**
Marine and other	**57**	51	**6**	4	**12**	**50**
Total Canada Commercial	**524**	471	**55**	42	**11**	**28**
Total Canada	**1,614**	1,483	**98**	116	**8**	**(16)**

Investment result	**2012**	2011	**Change**
	£m	£m	**%**
Investment income	**63**	72	**(13)**
Unwind of discount	**(2)**	(1)	**(100)**
Canada investment result	**61**	71	**(14)**

Canada insurance result	**159**	187	**(15)**

Operating Ratios (%)	Claims		Expenses		Combined	
	2012	2011	**2012**	2011	**2012**	2011
Personal						
Household					**92.6**	99.5
Motor					**97.9**	88.5
Total Canada Personal	**72.0**	67.9	**24.1**	24.4	**96.1**	92.3
Commercial						
Property					**99.1**	98.6
Liability					**71.3**	76.1
Motor					**87.1**	89.3
Marine and other					**88.5**	91.8
Total Canada Commercial	**53.8**	54.9	**34.4**	34.9	**88.2**	89.8
Total Canada	**66.2**	63.8	**27.5**	27.8	**93.7**	91.6

Rate Increases (%)	**Personal**		**Commercial**		
Canada	**Motor**	**Household**	**Motor**	**Liability**	**Property**
Dec 12 vs Dec 11	3	11	2	2	4
Sept 12 vs Sept 11	2	12	-	1	3
Jun 12 vs Jun 11	3	11	1	1	3
Mar 12 vs Mar 11	5	12	1	1	3
Dec 11 vs Dec 10	4	13	3	1	3

[1] at constant exchange rate

CANADA – STRONG PREMIUM GROWTH AND COR OF 93.7%

RSA is the third largest general insurer in Canada with a market share of around 7%. RSA Canada comprises a leading Personal and Commercial broker business, our direct business, Johnson, and our commercial brokerage, Noraxis.

Net written premiums in Canada were up 8% on a constant exchange rate basis to £1,614m (2011: £1,483m as reported; £1,493m at constant exchange) driven predominantly by strong organic growth across Personal and Commercial broker product lines, supplemented by three months benefit from the acquisition of L'Union Canadienne in Quebec which contributed 2% of the growth. Underwriting profit was £98m (2011: £116m) including a specific strengthening of prior year reserves in Personal Motor. Consequently, combined ratios worsened to 93.7% (2011: 91.6%). After including investment returns of £61m (2011: £71m), the insurance result was £159m (2011: £187m).

Personal premiums were up 7% on constant exchange to £1,090m (2011: £1,012m as reported; £1,019m at constant exchange). In Personal Motor, premiums grew by 4% but underwriting profit was down to £17m (2011: £75m) due to the identification and resolution of adverse development in the bodily injury and accident benefits reserves in the pre-reform Johnson Ontario motor book. As a consequence the Personal Motor combined ratio was 97.9% (2011: 88.5%). A thorough review of motor reserves in Canada has been completed which has given comfort over the adequacy of current reserves.

Personal Household premiums were up 13% to £396m (2011: £349m as reported; £351 at constant exchange) with good growth in both Johnson and Personal Broker business driven by strong rating action across all provinces and continued good retention rates. The combined ratio improved to 92.6% (2011: 99.5%) generating an underwriting profit of £26m (2011: £(1)m underwriting loss).

In Commercial lines, premiums were up 11% at constant exchange to £524m (2011: £471m as reported; £474m at constant exchange) with strong growth across all product lines and significant new business wins amongst large commercial brokers. Our Commercial proposition continues to benefit from the acquisition of GCAN in 2011. Underwriting profits were up 28% to £55m (2011: £42m) with particular strength in Liability.

The acquisition of L'Union Canadienne (UC) was completed on 1 October 2012. Integration is underway and progressing in line with our business case assumptions. This acquisition, which is around 70% Personal lines and 30% Commercial lines, will increase RSA's penetration in the attractive Quebec market (the second largest provincial market in Canada) and makes RSA the fifth largest insurer in Quebec. During the fourth quarter UC contributed £38m of net written premium.

Canada – Outlook

The Canadian P&C market will remain a highly attractive market for RSA. We expect continued single digit market growth led by a strong and stable economy and an established insurance market, characterised by underwriting discipline. We expect to outperform the market in terms of growth and profitability as we continue to drive organic growth from our unique distribution model, realise the benefits from the recent acquisitions we have made and look for further opportunities to participate in market consolidation.

BUSINESS REVIEW – EMERGING MARKETS

	Net written premiums		Underwriting result		Change[1]	
	2012	2011	**2012**	2011	**NWP**	**U/W Result**
	£m	£m	**£m**	£m	**%**	**%**
Latin America	**766**	670	**21**	19	**20**	**24**
CEE	**224**	219	**(2)**	(5)	**9**	**60**
Middle East	**127**	115	**9**	6	**10**	**50**
Asia	**120**	99	**5**	(17)	**19**	
Total Emerging Markets	**1,237**	1,103	**33**	3	**17**	
Asian Associates	**303**	292			**11**	
Asia (incl Associates)	**423**	391			**13**	
Emerging Markets (incl Associates)	**1,540**	1,395			**16**	

Investment result	**2012**	2011	**Change**
	£m	£m	**%**
Investment income	**49**	52	**(6)**
Unwind of discount	**(4)**	(1)	
Emerging Markets investment result	**45**	51	**(12)**

Emerging Markets insurance result	**78**	54	**44**

Operating Ratios (%)	Claims		Expenses		Combined	
	2012	2011	**2012**	2011	**2012**	2011
Latin America					**96.0**	95.7
CEE					**100.6**	101.4
Middle East					**93.1**	94.4
Asia					**99.0**	118.2
Total Emerging Markets	**55.8**	56.6	**41.1**	42.1	**96.9**	98.7

[1] at constant exchange rate

EMERGING MARKETS – CONTINUED STRONG PREMIUM GROWTH, DELIVERING OPERATING LEVERAGE

Our Emerging Markets business operates in twenty countries across Latin America, Asia, the Middle East and Central and Eastern Europe. During the year we have materially strengthened our position in Argentina with the acquisitions of El Comercio and ACG and have taken steps to release capital by exiting the Czech Republic and selling our operation in the Dutch Caribbean.

Emerging Markets delivered strong premium growth of 17% at constant exchange to £1,237m (2011: £1,103m as reported; £1,061m at constant exchange). Including non-consolidated associates in India and Thailand, premiums were up 16% at constant exchange to £1,540m (2011: £1,395m as reported; £1,333m at constant exchange). As we build scale in Emerging Markets, we are starting to benefit from operating leverage on expenses. Underwriting expenses were up 6% leading to an improved expense ratio (excluding commissions) of 21.6% (2011: 22.8%) and improved combined ratio of 96.9% (2011: 98.7%) and a significantly better underwriting result of £33m (2011: £3m). The business delivered an investment result of £45m (2011: £51m) leading to an insurance result up 44% to £78m. Start-up costs of £19m in 2012 will fall to zero by 2014. Emerging Markets is already delivering attractive returns on capital given the low capital intensity of the products sold.

In Latin America, we have attractive and developing market positions which give us access to approximately 80% of the general insurance markets in the region. We are the number one general insurer in Chile, number one private general insurer in Uruguay and a leading insurer in Argentina. Latin American premiums were up 20% at constant exchange to £766m (2011: £670m as reported; £640m at constant exchange), including £43m from the acquisitions in Argentina which completed on 31 July 2012. Premiums were up in all territories including 7% growth in Chile and 79% growth in Argentina (36% growth excluding 2012 acquisitions). Underwriting profits were £21m (2011: £19m) with strong contributions from Argentina, Chile, Mexico and our leading Marine business in Brazil.

In Central and Eastern Europe (CEE) we are the leading insurer across the Baltic States and we have leading direct businesses in Poland and Russia. Premiums were up 9% at constant exchange to £224m with strong growth in Estonia (up 67%), Russia (up 25%) and Poland (up 11%). The underwriting result was a £2m loss (2011: £5m underwriting loss) with a combined ratio of 100.6% (2011: 101.4%). Economic conditions are improving and we expect the business to deliver a profit in 2013.

In Asia and the Middle East, RSA has a strong Specialty business with exposure across the region. In addition we have retail businesses in China, Singapore and Hong Kong and minority stakes in businesses in India and Thailand. We are one of the leading insurers in the Middle East with a number one position in Oman and have businesses in UAE, Bahrain and the Kingdom of Saudi Arabia. Asian premiums were up 19% at constant exchange to £120m (2011: £99m as reported, £101m at constant exchange) with strong growth in Specialty lines and up 13% to £423m including non-consolidated associates in India and Thailand. Underwriting profit in Asia improved to £5m (2011: £17m underwriting loss). In the Middle East we delivered 10% growth in premiums to £127m (2011: £115m as reported and at constant exchange) and an increase in the underwriting profit to £9m (2011: £6m).

Emerging Markets Outlook

We expect to continue to deliver strong growth from our Emerging Markets franchises and are on track to meet our target of £2.2bn of premiums (including our associates) in 2015. We anticipate achieving this target without further M&A activity, although we continue to seek opportunities to grow the business through selective bolt-on acquisitions. As we grow the scale of our Emerging Markets business, we expect further operating leverage to emerge in the expense line, leading to improved combined ratios, growth in underwriting profit and further improvement in return on capital.

BUSINESS REVIEW – UK & WESTERN EUROPE

	Net written premiums		Underwriting result		Change[1]	
	2012	2011	**2012**	2011	**NWP**	**U/W Result**
UK Personal	**£m**	£m	**£m**	£m	**%**	**%**
Household	**670**	653	**54**	57	**3**	**(5)**
Motor	**416**	514	**10**	-	**(19)**	**-**
Pet	**233**	197	**6**	3	**18**	**100**
Total UK Personal	**1,319**	1,364	**70**	60	**(3)**	**17**
UK Commercial						
Property	**491**	453	**22**	12	**8**	**83**
Liability	**280**	276	**(21)**	4	**1**	**(625)**
Motor	**598**	572	**(44)**	(37)	**5**	**(19)**
Marine	**319**	293	**12**	23	**9**	**(48)**
Total UK Commercial	**1,688**	1,594	**(31)**	2	**6**	**(1,650)**
Total UK	**3,007**	2,958	**39**	62	**2**	**(37)**
Western Europe						
Ireland	**348**	353	**25**	24	**5**	**14**
Italy	**200**	261	**(51)**	(63)	**(18)**	**14**
European Specialty Lines	**134**	129	**(1)**	(22)	**11**	**95**
Total UK & Western Europe	**3,689**	3,701	**12**	1	**1**	**140**

Investment result	**2012**	2011	**Change**
	£m	£m	**%**
Investment income	**262**	276	**(5)**
Unwind of discount	**(29)**	(31)	**6**
UK & WE investment result	**233**	245	**(5)**
UK & WE insurance result	**245**	246	**-**

Operating Ratios (%)	**Claims**		**Expenses**		**Combined**	
Personal	**2012**	2011	**2012**	2011	**2012**	2011
Household					**91.5**	90.4
Motor					**99.9**	100.7
Pet					**97.4**	96.1
Total UK Personal	**60.1**	63.9	**35.5**	31.8	**95.6**	95.7
Commercial						
Property					**94.6**	99.1
Liability					**107.1**	99.7
Motor					**106.8**	105.9
Marine					**96.2**	91.1
Total UK Commercial	**70.4**	68.8	**30.0**	29.9	**100.4**	98.7
Total UK	**65.7**	66.5	**32.5**	30.8	**98.2**	97.3
Western Europe						
Ireland					**94.2**	92.6
Italy					**125.1**	123.6
European Specialty Lines					**100.4**	118.3
Total UK & Western Europe	**67.8**	69.0	**31.7**	30.6	**99.5**	99.6

Rate Increases (%)	**Personal**		**Commercial**		
UK	**Motor**	**Household**	**Motor**	**Liability**	**Property**
Dec 12 vs Dec 11	(2)	3	10	6	4
Sept 12 vs Sept 11	1	4	9	4	4
Jun 12 vs Jun 11	4	5	9	6	3
Mar 12 vs Mar 11	8	7	9	2	3
Dec 11 vs Dec 10	17	6	7	5	4

[1] at constant exchange rate

UK – ON TRACK TOWARDS IMPROVED PROFITABILITY AND RETURNS

UK & Western Europe delivered a 1% increase in net written premiums to £3,689m (2011: £3,701m as reported; £3,654 at constant exchange) and underwriting profit of £12m (2011: £1m). With investment result of £233m (2011: £245m), the insurance result was £245m (2011: £246m).

In the UK we are a leading Commercial insurer and a top five Personal lines insurer through direct and affinity channels. In Commercial we offer a full suite of products across Property, Liability, Motor and Marine and distribute predominantly through insurance brokers. In Personal we provide Household, Motor and Pet insurance through insurance brokers and affinity partners as well as MORE TH>N and eChoice, our direct businesses.

UK premiums were up 2% to £3,007m (2011: £2,958m) as targeted reductions in Personal Motor (down 19%) were offset by growth in Household (up 3%), Pet (up 18%) and Commercial lines (up 6%). UK underwriting profits were £39m (2011: £62m) primarily driven by the impact of adverse weather in the first half and weaker performance in Marine and Commercial Liability leading to a combined ratio of 98.2% (2011: 97.3%).

UK Personal premiums were down 3% to £1,319m (2011: £1,364m), whilst underwriting profit improved by 17% to £70m (2011: £60m). Following poor weather in the first half, Personal Household underwriting profit was down 5% to £54m (2011: £57m). The focus on profit over volume in Personal Motor delivered £10m of underwriting profit (2011: break even) although softening prices throughout the year continue to make this a challenging market. Pet insurance delivered a stronger underwriting profit of £6m (2011: £3m).

We are actively dealing with the challenges in the UK Commercial Market. We remain selective regarding the brokers we want to work with and have driven rate increases across the business. Premiums were up 6% to £1,688m (2011: £1,594m). Commercial Property performed well with premiums up 8% and underwriting profits of £22m (2011: £12m) benefitting from sustained rating activity. Liability premiums were up 1% to £280m (2011: £276m) but an underwriting loss of £21m (2011: £4m underwriting profit) reflected a number of large losses and an increase in the frequency of "slip and trip" claims. We are addressing this trend through underwriting and rating action. Included in the Commercial Motor result is a large Commercial Motor contract which represents the majority of Commercial Motor premiums and the underwriting loss. We are working on the details of new arrangements for this contract, to be effective from October 2013, however, Commercial Motor will continue to be negatively affected by the contract's old tranches for the next few years. We are confident that we are making progress in the Commercial Motor market. Excluding the large contract, Commercial Motor premiums were down 12%. During the year we have exited a number of Commercial Motor markets including Risk Managed Motor and Motor Trade which represented the balance of the Commercial Motor underwriting loss. Marine premiums grew by 9% to £319m (2011: £293m) but the underwriting result suffered from large losses including the Costa Concordia and Superstorm Sandy leading to a profit of £12m (2011: £23m).

WESTERN EUROPE – IRELAND CONTINUES TO DELIVER, ITALY REMEDIATION ON TRACK

Premiums in Ireland of £348m (2011: £353m as reported; £331m at constant exchange) were up 5% in a market that was expected to contract by 6% in 2012. Underwriting profits were up 14% driven by continued impressive performance from 123.ie, our direct insurer acquired in 2010, leading to a combined ratio of 94.2% (2011: 92.6%). In Italy, remediation is on track with premiums down 18% to £200m (2011: £261m as reported; £244m at constant exchange). Including the impact of the Italian earthquakes and some adverse weather in the first half, the underwriting loss was £51m (2011: £63m). Importantly, the Italian underwriting loss in the second half has reduced to £10m. European Specialty delivered 11% growth in premiums and an underwriting loss of £1m (2011: £22m underwriting loss).

Outlook – UK and Western Europe

Our focus will continue to be on underwriting profit over volume. We will continue with our intensive approach to portfolio management and expect only modest growth in premiums. Italy is on track to be trading on a break even basis during 2013. We expect year on year improvements in combined ratios as we deliver the strategy in UK and Western Europe.

BUSINESS REVIEW – INVESTMENT RESULT

Investment Result	**12 Months 2012 £m**	12 Months 2011 £m	Change %
Bonds	**403**	446	(10)
Equities	**57**	63	(10)
Cash and cash equivalents	**15**	15	-
Land and buildings	**28**	37	(24)
Other	**12**	18	(33)
Investment income	**515**	579	(11)
Unwind of discount including ADC	**(84)**	(94)	11
Investment result	**431**	485	(11)
Attributed to			
Scandinavia	**94**	123	(24)
Canada	**61**	71	(14)
Emerging Markets	**45**	51	(12)
UK & Western Europe	**233**	245	(5)
Realised and Unrealised Gains			
Realised gains	**79**	201	(61)
Unrealised (losses)/gains, impairments and foreign exchange	**(51)**	(44)	(16)
Total gains	**28**	157	
Balance sheet unrealised gains at 31 December			
Bonds	**638**	507	26
Equities	**86**	93	(8)
Other	**6**	3	100
Total	**730**	603	21

Portfolio Composition	**Value 31/12/2011 £m**	Foreign Exchange £m	Mark to Market £m	Other Movements £m	**Value 31/12/2012 £m**
Government bonds	**4,707**	(52)	(3)	(445)	**4,207**
Non government bonds	**6,967**	(90)	99	541	**7,517**
Cash	**1,258**	(29)	-	100	**1,329**
Equities	**771**	(3)	64	(279)	**553**
Property	**362**	(1)	(24)	3	**340**
Prefs & CIVs	**289**	(6)	(3)	6	**286**
Other	**104**	(2)	(14)	9	**97**
Total	**14,458**	**(183)**	**119**	**(65)**	**14,329**

INVESTMENT RESULT – CONTINUED PRESSURE FROM LOW BOND YIELDS

The Group continued to execute a low risk investment strategy which delivered £515m of investment income in 2012 (2011: £579m). After accounting for the unwind of discount, the investment result was down 11% to £431m (2011: £485m).

The 11% fall in investment income primarily reflects the impact of falling sovereign and corporate bond yields partly offset by a number of factors. Income from equities in 2012 was enhanced by both the weighting of our holdings to higher yielding stocks and the receipt of a number of one-off equity dividends which we do not expect to be repeated in 2013. Investment income in 2011 was enhanced by around £25m following the settlement of a rental dispute in Denmark.

The average underlying yield on the portfolio was 3.6% (2011: 3.9%). Reinvestment rates in the Group's main bond portfolios at 31 December 2012 were around 150bps lower than the underlying portfolio yield.

Total gains of £28m (2011: £157m) reflected realised gains from the sale of equities and bonds during the year partly offset by a decline in the value of investment properties.

Balance sheet unrealised gains of £730m (2011: £603m) primarily relate to unrealised gains on the bond portfolio which we expect to reduce over time as our bond holdings reach maturity. Balance sheet unrealised equity gains amounted to £86m (2011: £93m).

The portfolio decreased marginally in value over the year due to negative FX and cash flow used to fund corporate activity.

The portfolio is invested in widely diversified fixed income securities, with 4% in equities, 9% in cash and 2% in property. During 2012 we increased investments in longer duration assets with average duration increasing to 3.8 years (2011: 3.4 years). In addition, we reduced our sovereign debt holdings and purchased increased levels of non-government bonds which now make up 64% of the bond portfolio (2011: 60%). The quality of the bond portfolio remains very high with 98% investment grade and 69% rated AA or above. We are well diversified by sector and geography. Peripheral European sovereign debt amounts to less than 1% of the portfolio and is primarily backing the liabilities of our insurance operations in Ireland and Italy.

During the year we reduced our equity exposure by £279m which now represent 4% of the portfolio (2011: 5%). Around 65% of the equity portfolio is hedged providing protection down to a FTSE100 level of 4,400.

Investment Income: Outlook

In 2013, we will continue to follow our high quality, low risk strategy. Given current portfolio disposition and market levels further increases in bond duration and non-government bond holdings are likely to be modest. We will however continue to seek opportunities to enhance yield within our low risk framework and would anticipate income of around £470m in 2013. Assuming the current yield environment persists beyond 2013, we expect the fall in investment income to continue but to be less severe over the following three years.

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 2012	**3,801**	**114**	**1,313**	**5,228**
Profit after tax	344	7	-	**351**
Exchange losses net of tax	(66)	(4)	-	**(70)**
Fair value gains net of tax	115	1	-	**116**
Pension fund actuarial losses net of tax	(161)	-	-	**(161)**
Amortisation and repayment of loan capital	-	-	(2)	**(2)**
Share issue	58	4	-	**62**
Changes in shareholders' interests in subsidiaries	(11)	10	-	**(1)**
Share based payments	6	-	-	**6**
Prior year final dividend	(206)	(3)	-	**(209)**
Current year interim dividend	(121)	-	-	**(121)**
Preference dividend	(9)	-	-	**(9)**
Balance at 31 December 2012	**3,750**	**129**	**1,311**	**5,190**

Pension fund position

The table below provides a reconciliation of the Group's pension fund position (net of tax) from 1 January 2012 to 31 December 2012.

	UK £m	Other £m	Group £m
Pension fund at 1 January 2012	**(65)**	**(75)**	**(140)**
Actuarial losses	(124)	(37)	**(161)**
Deficit funding	54	-	**54**
Other movements	24	16	**40**
Pension fund at 31 December 2012	**(111)**	**(96)**	**(207)**

The UK pension fund position has deteriorated by £46m since 31 December 2011 to a deficit of £111m. This is driven by a decrease in the discount rate partly offset by greater than expected returns on assets and a reduction in the pension inflation rate.

Within actuarial assumptions, the discount rate decreased to 4.3% (31 December 2011: 4.9%) reflecting the yield on duration adjusted AA corporate bonds, whilst the pension inflation rate decreased to 2.6% (31 December 2011: 2.8%). Consequently the yield gap has decreased from 2.1% to 1.7%.

The overseas pension deficit has deteriorated by £21m since 31 December 2011 to a deficit of £96m principally due to a fall in the discount rate on the Canadian pension scheme from 5.3% to 4.4%, reflecting the AA corporate bond yield in Canada.

CAPITAL POSITION

The capital position of the Group is set out below:

	31 December 2012 Requirement £bn	**31 December 2012 Surplus £bn**	31 December 2011 Surplus £bn
Insurance Groups Directive	**1.3**	**1.2**	1.3
Economic Capital (1in 200 Calibration)		**1.2**	1.2
Economic Capital (1in 1,250 Calibration)		**0.7**	0.8

The IGD surplus is unchanged since the end of the third quarter at £1.2bn (31 December 2011: £1.3bn) and coverage over the IGD requirement remains strong at 1.9 times (31 December 2011: 2.0 times). The reduction in the surplus over the year reflects profits offset by dividends and the acquisitions in Argentina and Canada.

When calibrated to a risk tolerance consistent with the expected Solvency II calibration of 1 in 200 per annum, the ECA surplus was £1.2bn (31 December 2011: £1.2bn). When calibrated to Standard & Poor's long term A rated bond default curve, equivalent to a probability of insolvency over one year of 1 in 1,250 the ECA surplus was £0.7bn at 31 December 2012 (31 December 2011: £0.8bn). The decline in risk free yields and the impact of goodwill from acquisitions have been largely offset by capital generated, improved modelling of our assets in run-off, and the impact of the proposed new dividend policy.

The further delay in the implementation date for Solvency II is frustrating. We have rephased our implementation project to minimise costs whilst ensuring that we remain on track for implementation. In 2012 Solvency II costs were £32m (2011: £30m). We expect the costs of Solvency II to fall by around 50% from their 2012 level for the next two years. We still do not anticipate that Solvency II will cause any fundamental change to the way we run the business.

Capital sensitivities	**IGD Surplus £bn**	**ECA Surplus 1 in 200 year £bn**	**ECA Surplus 1 in 1,250 year £bn**
Increase in risk free yields by 100bps	**(0.2)**	**0.3**	**0.3**
Equity markets rise by 10%	**0.0**	**0.1**	**0.1**
FX declines by 10%	**(0.1)**	**0.0**	**0.0**

Our financing and liquidity position remains strong. The next call on any external financing is on the £450m subordinated guaranteed perpetual notes in December 2014 and our committed £500m senior facility has remained and continues to remain undrawn.

The Group is currently rated A+ (negative outlook) by Standard & Poor's and A2 by Moody's.

OTHER ACTIVITIES

	12 Months 2012 £m	12 Months 2011 £m	Change %
Central expenses	**(59)**	(63)	6
Investment expenses and charges	**(33)**	(34)	3
Other operating activities	**(30)**	(36)	17
Other activities	**(122)**	(133)	8

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 2012 reduced by £7m to £19m and is expected to fall further in 2013 and to zero in 2014.

TAX

The effective tax rate for the year was 27% (2011: 30%).

RATIOS AND DEFINITIONS

Return on equity

Underlying return on equity is 10.0% (2011: 11.6%) 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.

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 95.4% is based on net written premiums of £8,353m and net earned premiums of £8,167m.

Net asset value per share

The net asset value per share at 31 December 2012 excluding IAS 19 was 107p (31 December 2011: 108p) and including the pension deficit was 101p (31 December 2011: 104p).

The net asset value per share at 31 December 2012 was based on total shareholders' funds of £3,750m, adjusted by £125m for preference shares.

Earnings per share

Earnings per share on profit attributable to the ordinary shareholders of the Parent Company:

Basic	**9.5p**	11.9p
Diluted	**9.4p**	11.8p

Operating earnings per share on profit attributable to the ordinary shareholders of the Parent Company:

Basic	**10.7p**	11.3p
Diluted	**10.5p**	11.2p

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 these were 3,534,577,360 and 3,576,531,553 respectively (excluding those held in ESOP and SIP trusts). The number of shares in issue at 31 December 2012 was 3,589,761,696 (excluding those held in ESOP and SIP trusts).

RELATED PARTY TRANSACTIONS

In 2012, there have been no related party transactions that have materially affected the financial position of the Group.

CHANGE OF AUDITORS

At the 2013 Annual General Meeting we intend to recommend to shareholders that they appoint KPMG as auditors for 2013. This follows the impending appointment of our current auditors, Deloitte, to undertake additional consultancy work in Scandinavia which we and they felt could impair the perception of their independence.

LOSS DEVELOPMENT TABLES

The table below presents the general insurance claims provisions net of reinsurance for the accident years 2002 and prior through to 2012. 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 and across all years. In terms of accident year, 2011 has shown initial favourable development of £7m, which primarily comprises positive development in Scandinavian Personal Accident, Canada and UK Commercial Property. The earlier years continue to develop positively, with Scandinavian Personal lines, UK Commercial Property and UK Liability showing consistent positive development across most years. 2002 and prior accident years generated £69m of positive prior year development driven in particular by Scandinavian Personal Motor and Workers' Compensation, as well as Canada.

	2002 and prior £m	2003 £m	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	Total £m
Estimate of Cumulative claims												
At end of accident year	8,057	2,443	2,280	2,445	2,471	2,569	2,627	2,518	2,666	2,936	3,078	
1 year later	8,095	2,476	2,147	2,323	2,453	2,567	2,629	2,557	2,691	2,929		
2 years later	8,447	2,389	1,957	2,233	2,356	2,540	2,621	2,528	2,670			
3 years later	8,468	2,279	1,872	2,159	2,271	2,477	2,592	2,503				
4 years later	8,889	2,219	1,805	2,076	2,219	2,433	2,576					
5 years later	8,809	2,159	1,756	2,013	2,197	2,417						
6 years later	8,701	2,136	1,721	1,988	2,167							
7 years later	8,617	2,077	1,677	1,963								
8 years later	8,545	2,065	1,659									
9 years later	8,416	2,048										
10 years later	8,347											
2012 Movement	**69**	**17**	**18**	**25**	**30**	**16**	**16**	**25**	**21**	**7**		**244**
Claims paid												
1 year later	2,291	892	720	952	992	1,148	1,307	1,276	1,404	1,375		
2 years later	1,395	298	259	292	350	366	389	402	442			
3 years later	829	212	183	169	190	267	253	258				
4 years later	580	110	141	142	174	165	192					
5 years later	359	92	89	103	118	139						
6 years later	363	64	72	80	88							
7 years later	287	51	26	45								
8 years later	223	26	28									
9 years later	161	16										
10 years later	156											
Cumulative claims paid	**6,644**	**1,761**	**1,518**	**1,783**	**1,912**	**2,085**	**2,141**	**1,936**	**1,846**	**1,375**		
Current year provision before discounting	**1,703**	**287**	**141**	**180**	**255**	**332**	**435**	**567**	**824**	**1,554**	**3,078**	**9,356**
Exchange adjustment to closing rates												(52)
Discounting closing rate												(591)
Annuities closing rate												639
Present value recognised in the statement of financial position												**9,352**

Asbestos reserves

The technical provisions include £832m (31 December 2011: £809m) for asbestos in the UK comprising £788m (31 December 2011: £759m) for UK risks and £44m (31 December 2011: £50m) for US risks written in the UK. The increase of £29m in the reserve net of reinsurance for UK risks compared with 2011 reflects a small increase in claimant numbers reported in 2012. The reduction of £6m for US risks written in the UK 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 2012 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	**832**	**788**	**44**
Net of discount	**442**	**408**	**34**
Survival ratios (Gross of discount) - On payment			
One year	**33**	**34**	**21**
Three year average	**30**	**34**	**13**
Survival ratios (Gross of discount) - On notifications			
One year	**23**	**27**	**6**
Three year average	**27**	**29**	**12**

One year average ratios are inherently more volatile and impacted by the size and timing of payments or notifications 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 impacted by changes in the level of notifications from year to year. We continue to monitor notification levels closely. 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 and settlements during the year.

SUMMARY CONSOLIDATED INCOME STATEMENT

MANAGEMENT BASIS

	12 Months 2012 £m	12 Months 2011 £m
Net written premiums	**8,353**	8,138
Underwriting result	**375**	375
Investment income	**515**	579
Unwind of discount	**(84)**	(94)
Investment result	**431**	485
Insurance result	**806**	860
Other activities	**(122)**	(133)
Operating result	**684**	727
Realised gains	**79**	201
Unrealised (losses)/gains, impairments and foreign exchange	**(51)**	(44)
Interest costs	**(115)**	(117)
Amortisation and impairment of intangible assets	**(42)**	(114)
Solvency II costs	**(32)**	(30)
Reorganisation costs	**(24)**	-
Acquisitions and disposals	**(20)**	(10)
Profit before tax	**479**	613
Taxation	**(128)**	(186)
Profit after tax	**351**	427

SUMMARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION

MANAGEMENT BASIS

	31 December 2012 £m	31 December 2011 £m
Assets		
Goodwill and other intangible assets	**1,489**	1,359
Property and equipment	**272**	275
Associated undertakings	**40**	29
Investments		
Investment property	**340**	362
Equity securities	**839**	1,060
Debt and fixed income securities	**11,724**	11,674
Other	**97**	104
Total investments - management basis	**13,000**	13,200
Reinsurers' share of insurance contract liabilities	**1,949**	2,073
Insurance and reinsurance debtors	**3,592**	3,328
Other debtors and other assets	**1,114**	1,059
Cash and cash equivalents	**1,329**	1,258
	22,785	**22,581**
Assets held for sale*	**-**	17
Total assets	**22,785**	**22,598**
Equity and liabilities		
Equity		
Shareholders' funds	**3,750**	3,801
Non controlling interests	**129**	114
Total equity	**3,879**	**3,915**
Loan capital	**1,311**	1,313
Total equity and loan capital	**5,190**	**5,228**
Liabilities (excluding loan capital)		
Insurance contract liabilities	**14,854**	14,766
Insurance and reinsurance liabilities	**558**	602
Borrowings	**296**	298
Provisions and other liabilities	**1,887**	1,704
Total liabilities (excluding loan capital)	**17,595**	**17,370**
Total equity and liabilities	**22,785**	**22,598**

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

OTHER INFORMATION

MANAGEMENT BASIS

Cashflow

	12 Months 2012 £m	12 Months 2011 £m
Operating cashflow	**552**	530
Tax paid	**(201)**	(227)
Interest paid	**(115)**	(116)
Pension deficit funding	**(73)**	(56)
Cash generation	**163**	131
Group dividends	**(286)**	(303)
Dividend to non controlling interests	**(2)**	(18)
Issue of share capital	**12**	4
Net movement of debt	**(1)**	1
Corporate activity	**(116)**	(302)
Cash movement	**(230)**	(487)
Represented by:		
Movement in cash and cash equivalents	**100**	(31)
Sales of other investments	**(330)**	(456)
	(230)	(487)

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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 9.30am 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 2313. Participants should quote conference ID 4593638. 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 9.00am today. Scanning the QR code opposite will download details of the conference call to a smart phone.

An interim management statement will be released on 2 May 2013.

The Annual General Meeting will take place on 15 May 2013.

The 2013 interim results will be released on 1 August 2013.

MANAGEMENT BASIS OF REPORTING

The analysis on pages 16 and 21 to 23 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 25 to 28. Financial information on a statutory basis is included on pages 30 to 38.

IMPORTANT DISCLAIMER

Visit www.rsagroup.com for more information.

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.

ESTIMATION TECHNIQUES, RISKS, UNCERTAINTIES AND CONTINGENCIES

Introduction

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

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

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

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

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

Estimation techniques

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

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

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

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

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

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

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

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

Rating environment
The ability of the Group to write certain types of insurance business is dependent on the maintenance of the appropriate credit ratings from the rating agencies. The Group has the objective of maintaining single 'A' ratings. At the present time the ratings are 'A+' (negative outlook) from S&P 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 remains continued uncertainty as delays in agreeing the rules have caused the planned implementation date of 2014 to be delayed. The Group is actively participating in shaping the outcome through its involvement with European and UK regulators and industry bodies, whilst appropriately 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

CONDENSED CONSOLIDATED INCOME STATEMENT

STATUTORY BASIS

	12 Months 2012 (audited) £m	12 Months 2011 (audited) £m
Income		
Gross written premiums	9,397	9,131
Less: reinsurance premiums	(1,044)	(993)
Net written premiums	8,353	8,138
Change in the gross provision for unearned premiums	(188)	(273)
Less: change in provision for unearned premiums, reinsurers' share	2	(9)
Change in provision for unearned premiums	(186)	(282)
Net earned premiums	8,167	7,856
Net investment return	534	745
Other operating income	141	134
Total income	8,842	8,735
Expenses		
Gross claims incurred	(5,829)	(5,595)
Less: claims recoveries from reinsurers	448	382
Net claims and benefits	(5,381)	(5,213)
Underwriting and policy acquisition costs	(2,543)	(2,399)
Unwind of discount including ADC	(84)	(94)
Other operating expenses	(234)	(291)
Total expenses	(8,242)	(7,997)
Finance costs	(115)	(117)
Acquisitions and disposals	-	1
Net share of loss after tax of associates	(6)	(9)
Profit before tax	479	613
Income tax expense	(128)	(186)
Profit after tax	351	427
Attributable to:		
Equity holders of the Parent Company	344	426
Non controlling interests	7	1
Profit after tax	351	427
Earnings per share on profit attributable to the ordinary shareholders of the Parent Company:		
Basic	9.5p	11.9p
Diluted	9.4p	11.8p

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

STATUTORY BASIS

	12 Months 2012 (audited) £m	12 Months 2011 (audited) £m
Profit after tax	**351**	427
Exchange (losses)/gains net of tax	**(70)**	(70)
Fair value gains/(losses) net of tax	**116**	26
Pension fund actuarial (losses)/gains net of tax	**(161)**	(63)
Other comprehensive (expense)/income for the period, net of tax	**(115)**	(107)
Total comprehensive income/(expense) for the year	**236**	320
Attributable to:		
Equity holders of the Parent Company	**232**	318
Non controlling interests	**4**	2
	236	320

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

STATUTORY BASIS

	Shareholders' funds £m	**Non controlling interests £m**	**Total equity £m**
Balance at 1 January 2012	**3,801**	**114**	**3,915**
Total comprehensive income for the year	**232**	**4**	**236**
Share issue	**58**	**4**	**62**
Changes in shareholders' interests in subsidiaries	**(11)**	**10**	**(1)**
Share based payments	**6**	**-**	**6**
Prior year final dividend	**(206)**	**(3)**	**(209)**
Current year interim dividend	**(121)**	**-**	**(121)**
Preference dividend	**(9)**	**-**	**(9)**
Balance at 31 December 2012	**3,750**	**129**	**3,879**
Balance at 1 January 2011	3,766	129	3,895
Total comprehensive income for the year	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

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

STATUTORY BASIS

	31 December 2012 (audited) £m	31 December 2011 (audited) £m
Assets		
Goodwill and other intangible assets	**1,489**	1,359
Property and equipment	**272**	275
Investment property	**340**	362
Investment in associates	**40**	29
Financial assets	**12,660**	12,838
Total investments	**13,040**	13,229
Reinsurers' share of insurance contract liabilities	**1,949**	2,073
Insurance and reinsurance debtors	**3,592**	3,328
Current tax assets	**76**	33
Deferred tax assets	**285**	249
Other debtors and other assets	**753**	777
	1,114	1,059
Cash and cash equivalents	**1,329**	1,258
	22,785	22,581
Assets held for sale*	**-**	17
Total assets	**22,785**	22,598
Equity and liabilities		
Equity		
Shareholders' funds	**3,750**	3,801
Non controlling interests	**129**	114
Total equity	**3,879**	3,915
Liabilities		
Loan capital	**1,311**	1,313
Insurance contract liabilities	**14,854**	14,766
Insurance and reinsurance liabilities	**558**	602
Borrowings	**296**	298
Current tax liabilities	**58**	104
Deferred tax liabilities	**139**	102
Provisions	**487**	389
Other liabilities	**1,203**	1,109
Provisions and other liabilities	**1,887**	1,704
Total liabilities	**18,906**	18,683
Total equity and liabilities	**22,785**	22,598

These condensed consolidated financial statements have been approved for issue by the Board of Directors on 19 February 2013.

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

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

CONDENSED CONSOLIDATED STATEMENT OF CASHFLOWS

STATUTORY BASIS

	12 Months 2012 (audited) £m	12 Months 2011 (audited) £m
Cashflows from operations	**165**	104
Tax paid	**(201)**	(227)
Investment income	**526**	597
Interest paid	**(115)**	(116)
Dividends received from associates	**1**	1
Pension deficit funding	**(73)**	(56)
Net cashflows from operating activities	**303**	303
Proceeds from sales or maturities of:		
Financial assets	**4,533**	4,432
Investment property	**-**	11
Property and equipment	**22**	14
Investments in subsidiaries (net of cash disposed of)	**-**	6
Purchase of:		
Financial assets	**(4,198)**	(3,983)
Investment property	**(2)**	(3)
Property and equipment	**(35)**	(37)
Intangible assets	**(146)**	(159)
Investments in subsidiaries (net of cash acquired)	**(97)**	(299)
Investments in associates	**(9)**	-
Net cashflows from investing activities	**68**	(18)
Proceeds from issue of share capital	**12**	4
Sale of shares to non controlling interests	**6**	-
Dividends paid to ordinary shareholders	**(277)**	(294)
Dividends paid to preference shareholders	**(9)**	(9)
Dividends paid to non controlling interests	**(2)**	(18)
Net movement in other borrowings	**(1)**	1
Net cashflows from financing activities	**(271)**	(316)
Net increase/(decrease) in cash and cash equivalents	**100**	(31)
Cash and cash equivalents at beginning of the year	**1,258**	1,314
Effect of exchange rate changes on cash and cash equivalents	**(29)**	(25)
Cash and cash equivalents at end of the year	**1,329**	1,258

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 2012. A full list of other accounting policies applied in these condensed financial statements can be found in the 2012 Annual Report and Accounts (see note 10 below).

The Board have 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 the financial statements, from which these summary financial statements have been extracted, on a going concern basis.

2. Operating segments

12 months ended 31 December 2012

	Scandinavia	**Canada**	**UK & Western Europe**	**Emerging Markets**	**Central Functions**	**Group**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Net written premiums	**1,791**	**1,614**	**3,689**	**1,237**	**22**	**8,353**
Underwriting result	**237**	**98**	**12**	**33**	**(5)**	**375**
Investment result	**94**	**61**	**233**	**45**	**(2)**	**431**
Insurance result	**331**	**159**	**245**	**78**	**(7)**	**806**
Other activities	**(9)**	**(7)**	**(1)**	**(32)**	**(73)**	**(122)**
Operating result (management basis)	**322**	**152**	**244**	**46**	**(80)**	**684**
Realised gains/(losses)						**79**
Unrealised (losses)/gains, impairments and foreign exchange						**(51)**
Interest costs						**(115)**
Amortisation and impairment of intangible assets						**(42)**
Solvency II costs						**(32)**
Reorganisation costs						**(24)**
Acquisitions and disposals						**(20)**
Profit before tax (per condensed consolidated income statement)						**479**
Combined operating ratio (%)	**86.6**	**93.7**	**99.5**	**96.9**	**-**	**95.4**

12 months ended 31 December 2011 (restated)

	Scandinavia	Canada	UK & Western Europe	Emerging Markets	Central Functions	Group
	£m	£m	£m	£m	£m	£m
Net written premiums	1,824	1,483	3,701	1,103	27	8,138
Underwriting result	264	116	1	3	(9)	375
Investment result	123	71	245	51	(5)	485
Insurance result	387	187	246	54	(14)	860
Other activities	(8)	(5)	5	(42)	(83)	(133)
Operating result (management basis)	379	182	251	12	(97)	727
Realised gains						201
Unrealised (losses)/gains, impairments and foreign exchange						(44)
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 (%)	85.4	91.6	99.6	98.7	-	94.9

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.

With effect from 1 January 2012, we restructured the business into four operating segments, Scandinavia, Canada, UK & Western Europe, which includes Ireland and Italy, and Emerging Markets, which remains unchanged. As previously indicated, from 1 January 2012 the investment result comprises investment income and unwind of discount. The comparative information has been restated accordingly, including operating earnings per share.

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 these were 3,534,577,360 and 3,576,531,553 respectively (excluding those held in ESOP and SIP trusts). The number of shares in issue at 31 December 2012 was 3,589,761,696 (excluding those held in ESOP and SIP trusts).

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

During 2012, changes to claims reserve estimates made in prior years as a result of reserve development is included in the prior year profit of £191m (2011: £229m).

The Group pension fund deficit net of tax as at 31 December 2012 is £207m (31 December 2011: £140m). Further information on the movement in pension fund is included on page 16.

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

During 2012, 19,335,754 (2011: 18,409,921) ordinary shares were issued on the exercise of employee share options. The Company also issued 45,594,331 (2011: 16,660,432) ordinary shares under the scrip scheme approved by the shareholders at the 2009 Annual General Meeting.

6. Cashflows from operations reconciliation to operating cashflow (management basis)

	12 Months 2012 £m	12 Months 2011 £m
Cash generated from operations	**165**	104
Investment income	**526**	597
Net purchase of property and equipment	**(13)**	(23)
Net purchase of intangibles	**(146)**	(159)
Dividends received from associates	**1**	1
Other items	**19**	10
Operating cashflow (management basis)	**552**	530

7. Business combinations

Acquisition of subsidiaries

On 31 July 2012, the Group acquired 96.7% of the share capital of El Comercio Compañía de Seguros and 99.9% of the share capital of Aseguradora de Créditos y Garantías, two sister companies in Argentina. The fair values of identifiable assets acquired comprise investments of £2m, intangible assets (excluding goodwill) of £11m, other assets of £68m and cash and cash equivalents of £70m. The fair values of liabilities assumed comprise insurance contract liabilities of £108m and other liabilities of £35m. The total cash consideration paid was £47m and goodwill of £39m arose on this acquisition.

On 1 October 2012, the Group acquired 100% of the share capital of L'Union Canadienne, Compagnie d'assurances. The fair values of identifiable assets acquired comprise investments of £151m, intangible assets (excluding goodwill) of £32m, other assets of £78m and cash and cash equivalents of £4m. The fair values of liabilities assumed comprise insurance contract liabilities of £160m and other liabilities of £22m. The total cash consideration paid was £96m and goodwill of £13m arose on this acquisition.

During the year a number of small acquisitions were completed in Canada. These acquisitions principally comprised of insurance intermediaries and increase the Group's insurance activity in each of the countries. The total cash consideration paid was £28m and goodwill of £15m arose on these acquisitions.

Fair values of identifiable assets acquired and liabilities assumed for all business combinations in the year:

	Total £m
Provisional fair values of identifiable assets acquired and liabilities assumed	
Investments	**153**
Intangible assets (excluding goodwill)	**63**
Other assets	**152**
Cash and cash equivalents	**74**
Insurance contract liabilities	**(269)**
Other liabilities	**(69)**
Net assets acquired	**104**
Cash consideration	**171**
Total consideration paid	**171**
Goodwill on acquisitions	**67**

The above values are provisional pending the final agreement of completion accounts which will determine the consideration payable.

The fair value of the financial assets acquired, included within other assets, includes premiums and insurance debtors of £146m, with no reduction on their nominal value to take account of balances that are expected to be uncollectable.

During 2012 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 2012) amounted to £2m.

As a result of the above acquisitions the Group recognised £2m of non controlling interests. The non controlling interests are measured as the proportionate share of the identifiable acquired net assets.

If the acquisitions had occurred on 1 January 2012, the contribution to the Group's net written premiums and fee income for the year would have been £264m and the contribution to the Group's profit after tax for the year would have been £5m. The total net written premiums and fee income of the acquired businesses since the acquisition dates included in the Group's net written premiums for the year is £85m. The total profit after tax of the acquired businesses since the acquisition dates included in the Group's profit for the year is £1m.

The goodwill recognised on the acquisition of L'Union Canadienne, Compagnie d'assurances arises primarily from the premium paid to significantly expand the Group's presence in the Quebec region and to enhance the Group's Canadian proposition in both Personal and Commercial lines. Goodwill arising on the acquisitions in Argentina and Canada is further derived from the value of the workforces acquired and the significant synergies from reinsurance, capital and expense savings on integration into the Group.

Of the total goodwill recognised, £7m is expected to be deductible for income tax purposes.

Disposal of subsidiaries

No subsidiaries were disposed of during the year. There was a £1m profit on disposal of subsidiaries in 2011.

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

	2012	2011
	£m	£m
Gross goodwill		
At 1 January	**663**	650
Recognised in period	**67**	112
Impairments	**-**	(71)
Net foreign exchange rate movement	**(10)**	(28)
At 31 December	**720**	663

No goodwill impairment charges have been recognised within other operating expenses during 2012 (2011: £71m).

8. Dividends

	31 December 2012		31 December 2011	
	Per share	**Total**	Per share	Total
	p	**£m**	p	£m
Ordinary dividend				
Final paid in respect of prior year	**5.82**	**206**	5.70	198
Interim proposed/paid in respect of current year	**3.41**	**121**	3.34	118
	9.23	**327**	9.04	316
Preference dividend		**9**		9
		336		325

9. Exchange rates

Local currency/£	**12 Months 2012**		12 Months 2011	
	Average	**Closing**	Average	Closing
Canadian Dollar	**1.58**	**1.62**	1.59	1.58
Danish Krone	**9.18**	**9.20**	8.59	8.90
Swedish Krona	**10.73**	**10.57**	10.41	10.65
Euro	**1.23**	**1.23**	1.15	1.20

10. Results for 2012

The financial information set out in this preliminary announcement does not constitute the statutory accounts for the year ended 31 December 2012. 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 15 May 2013. The independent auditors' report on the Group accounts for the year ended 31 December 2012 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:

- 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,

- 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

- 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
Group Chief Executive

19 February 2013

Richard Houghton
Group Chief Financial Officer

19 February 2013

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