RSA

ANNUAL REPORT AND ACCOUNTS 2013

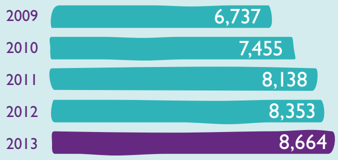
CREATING VALUE THROUGH OUR CUSTOMERS

FINANCIAL SUMMARY

NET WRITTEN PREMIUMS (£M)

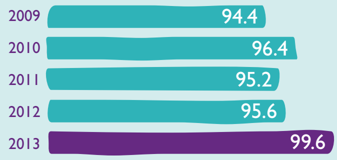
£8.7bn

growth at constant exchange



COMBINED OPERATING RATIO (%)*

99.6%

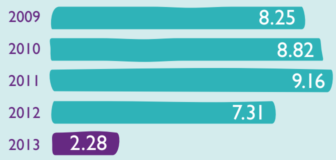


UNDERLYING RETURN ON TANGIBLE EQUITY (%)*

(5.5)%

DIVIDEND FOR THE YEAR (p)

2.28p



* restated for changes to IAS19 'Employee Benefits'

OPERATIONAL SUMMARY

2013 was a very disappointing year for the Group. The underwriting profit of £57m and loss after tax of £338m reflected the impact of the issues we faced in Ireland, adverse weather across Scandinavia, Canada and the UK, as well as write downs of software intangible assets and goodwill.

Our underlying business continues to perform. On a normalised basis, adjusting for non-recurring items, underwriting profits were £309m, and profit after tax was £304m.

Net written premiums were up 3% during the year at constant exchange rates with growth of 16% in Emerging Markets and 11% in Canada, with Scandinavia flat. Premiums were down 4% in the UK and Western Europe.

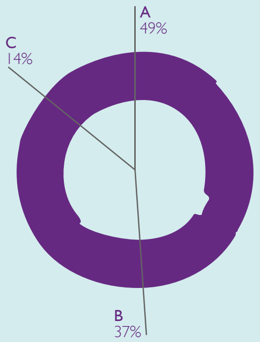
We have completed a thorough review of the Group. We intend to tighten strategic focus so we can concentrate more effectively on performing sustainably well in core businesses; reset the quantity and quality of capital the Group works with and improve business performance and the Group's ability to sustain it.

PRODUCTS AND SERVICES

PERSONAL

Our Personal insurance products provide peace of mind to our customers, and if the worst should happen, we respond quickly to deal with their claim, allowing them to continue living their lives.

A Motor
B Household
C Personal Accident, Pet and Other



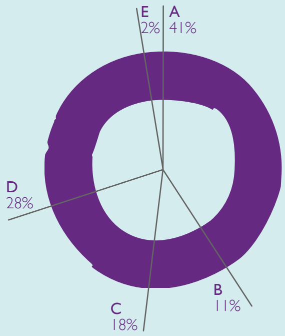
£4.5bn / 52%

Net written premium / of total NWP

COMMERCIAL

In the fast-paced world of commercial enterprise our customers rely on us to help them mitigate the impact of potential risks. Our commercial products ensure that if the need arises, their business will be up and running again as quickly as possible.

A Motor
B Marine and Other
C Liability
D Property
E Group Reinsurance



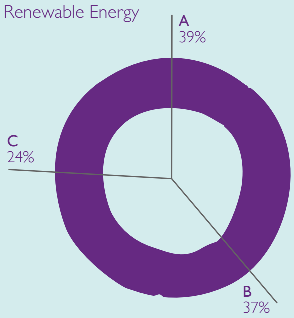
£2.8bn / 32%

Net written premium / of total NWP

SPECIALTY

Our Global Specialty Lines business supports the insurance needs of large and specialised businesses worldwide. Our philosophy is simple; it's about understanding our customers' businesses, inside-out and back-to-front.

A Risk Managed
B Marine
C Construction and Engineering and Renewable Energy
D Property
E Group Reinsurance



£1.4bn / 16%

Net written premium / of total NWP

WE PROTECT PEOPLE AGAINST THE RISKS THEY FACE IN THEIR DAILY LIVES

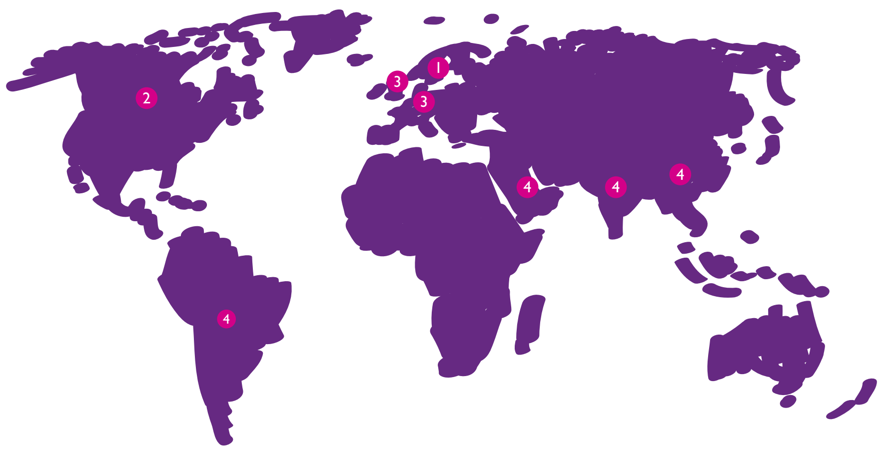
SO WHO ARE OUR CUSTOMERS?

WE PROTECT INDIVIDUALS AND BUSINESSES, PROTECTING CARS, PROPERTY, PETS, LIABILITY, MARINE AND PERSONAL ACCIDENT RISKS

PERSONAL CUSTOMERS (2012 £4.3bn)	52%	£4.5bn
COMMERCIAL AND SPECIALTY CUSTOMERS (2012 £4.1bn)	48%	£4.2bn

WHERE ARE OUR CUSTOMERS?

A STRONG DIVERSIFIED PORTFOLIO IN DEVELOPED AND EMERGING MARKETS



	Estimated customer numbers	Combined operating ratio (%)	Net written premiums (£m)
1 SCANDINAVIA	2.5m[1]	88.1	1,863
2 CANADA	1.2m[1]	99.3	1,755
3 UNITED KINGDOM AND WESTERN EUROPE	7.5m[2]	106.6	3,589
4 EMERGING MARKETS	7.6m[2]	96.9	1,403

1 Estimated number of unique customers
2 Estimated number of policies in force

HOW WE CREATE VALUE FOR OUR CUSTOMERS

OUR PRICING MAKES OUR PRODUCTS ATTRACTIVE TO THE CONSUMER, WHILE DELIVERING RETURNS TO THE SHAREHOLDER

CUSTOMER RETENTION AND NEW BUSINESS

	SCANDINAVIA	CANADA	UNITED KINGDOM AND WESTERN EUROPE	EMERGING MARKETS
Retention	81%	86%	75%	74%
New business premiums	£0.4bn	£0.4bn	£1.1bn	£0.7bn

THE EFFECT OF CHANGING CUSTOMER BEHAVIOURS

CHANGING CUSTOMER BEHAVIOURS ARE CREATING NEW PRODUCT OPPORTUNITIES

OPPORTUNITY

RISING MIDDLE CLASS

RESPONSE

There are an estimated two billion middle class people in the world today, and this is expected to rise to over three billion by 2020. This growth will give rise to increasing demand in the faster growing economies for insurable assets such as cars, homes, electronics and valuables. Our exposure to regions such as Latin America put us in a strong position to benefit from this growth.

OPPORTUNITY

SHIFTING BUYING PATTERNS

RESPONSE

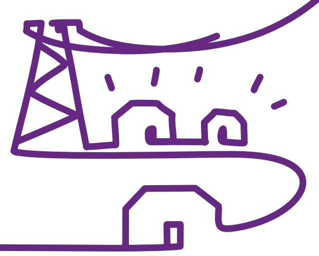
Consumers are increasingly wanting to buy a more diverse range of products and services from large high street retailers and banks. Insurance is no exception and we have secured new affinity relationships with some of the world's best known brands. This enables us to be closer to our customers, making our products easy to get to.

OPPORTUNITY

INCREASING DEMAND FOR ENERGY

RESPONSE

RSA is underpinning the growth in renewable energy sources. We are one of the world's leading insurers of wind farms. With more than 30 years' experience in this sector, we insure wind energy projects at every stage of development. We insure the manufacturers of more than 25% of the world's wind turbines and provide insurance to around 80% of the world's offshore wind farms.



INTERESTING CUSTOMER FACTS

1. The total no claims bonuses of our More Th>n customers adds up to two million years – about the same time that man has walked upright on the Earth.
2. In the UK, we provide PA insurance to 25% of FTSE100 companies.
3. In Sweden, more than 600,000 people have their house insured with Trygg-Hansa and we helped around 400 families with temporary housing in 2013.
4. In Denmark, in 2013, we helped 13 families to rebuild their homes after fires, we replaced 2,086 windows, helped 3,850 people get new bicycles and replaced 4,279 mobile phones.
5. In Canada our Johnson business has over 400 affinity group partnerships; more than four million Canadians are members of affinity groups serviced by Johnson.
6. In Riyadh, KSA, we are insuring one of the world's largest metro projects: an automatic and driverless metro network covering 170km (equivalent 42% of the London tube system) and 87 stations.

GOOD BUSINESS SIMPLY STARTS WITH OUR CUSTOMERS

OUR PRODUCTS AND SERVICES ARE BUILT AROUND OUR CUSTOMERS, ADAPTING TO DIFFERENT MARKETS AROUND THE WORLD. BY ANTICIPATING THEIR NEEDS AND USING OUR EXPERTISE TO INNOVATE, WE ENSURE THE MANAGEMENT OF RISK MAKES A DIFFERENCE TO THE LIVES OF PEOPLE ALL OVER THE WORLD.

This Annual Report and Accounts contains 'forward-looking statements' with respect to certain of the Group's plans and its current goals and expectations relating to its future financial condition, performance, results, strategic initiatives and objectives. For further details, reference should be made to the 'important disclaimer' on the inside back cover. Pages 8 to 43 constitute the Strategic Report of RSA and are incorporated by reference into the Directors' and corporate governance report set out on pages 50 to 63. The Directors' and corporate governance report has been drawn up and presented in accordance with and in reliance upon applicable English company law and the liabilities of the Directors in connection with that report shall be subject to the limitations and restrictions provided by such law.

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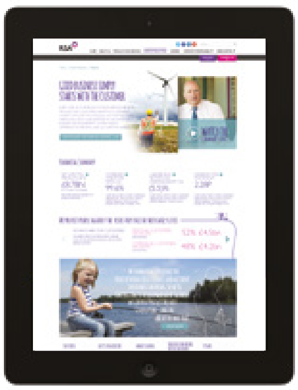


EXPLORE ONLINE

Visit us online to see summary information and listen to our Group Chief Executive's statement at: rsagroup.com

WE KNOW FROM EXPERIENCE THE PEACE OF MIND CHILD SICKNESS AND ACCIDENT INSURANCE CAN BRING. SO WE'RE CONTINUING TO DEVELOP OUR OFFER, HELPING TO PROTECT THE NEXT GENERATION – AND THE ONE AFTER THAT TOO!

MARKET LEADERS

No. 1 provider of child sickness and accident insurance in Sweden.

FACTS ON FACEBOOK

Customers can get advice on how to prevent and handle childhood accidents and illness with the click of a mouse.

200 PEOPLE

Attended our 'Baby Buoy' training events and we've distributed more than 2,500 'Baby Buoy' kits across Sweden.

THERE FOR THEM BEFORE THEY'RE EVEN BORN

Partnering with Sweden's most popular pregnancy app has led to a 42% increase in the uptake of pregnancy insurance.

37 YEARS

We started offering sickness and accident insurance in 1977, giving us nearly forty years of experience.

CHILD SICKNESS AND ACCIDENT INSURANCE IN SWEDEN

Sweden is probably the only country in the world where over 80% of parents buy sickness and accident (S&A) insurance for their children. This is despite their excellent social security coverage.

Trygg-Hansa, our core brand in Sweden, has been the market leader since the late 1990s and has led the development of the Child S&A customer proposition. During the last few years we've noticed some changes in customer behaviour and preferences regarding the product and distribution. Some of these insights are:

- Parents want to buy a premium S&A product for their children.
- Younger generations are starting to buy insurance online and gather information via social media.
- Most parents make their choice of provider before their child is born.

It's insights like these that allow us to improve our product offering and deliver a premium service to our customers, year after year.

BY SHARING OUR UNIQUE CUSTOMER INSIGHTS, AND A COFFEE OR TWO, WE'RE HELPING BROKERS IN THE UK CREATE THE RIGHT PRODUCTS AND SERVICES, WHEREVER OUR CUSTOMERS ARE.

BETTER SYSTEMS

We will continue to invest in systems, processes and locations to fit the needs of our top brokers.

CLOSER COLLABORATION

Face-to-face access to our specialists means we can address brokers' immediate needs, and offer decisions on the spot.

LOCATION, LOCATION

In 2013, we launched new broker-dedicated trading sites in Redhill, Leicester and Edinburgh – and we're planning more for the future.

UK BROKER TRADING SITES AND A NEW CULTURE OF OPENNESS

We exist to look after our customers and we respect the trust they place in their broker when they advise them on their choice of insurer. We are doing everything we can to help our top brokers feel confident about recommending RSA to their customers.

We're opening up RSA to them in a way we have never been able to before.

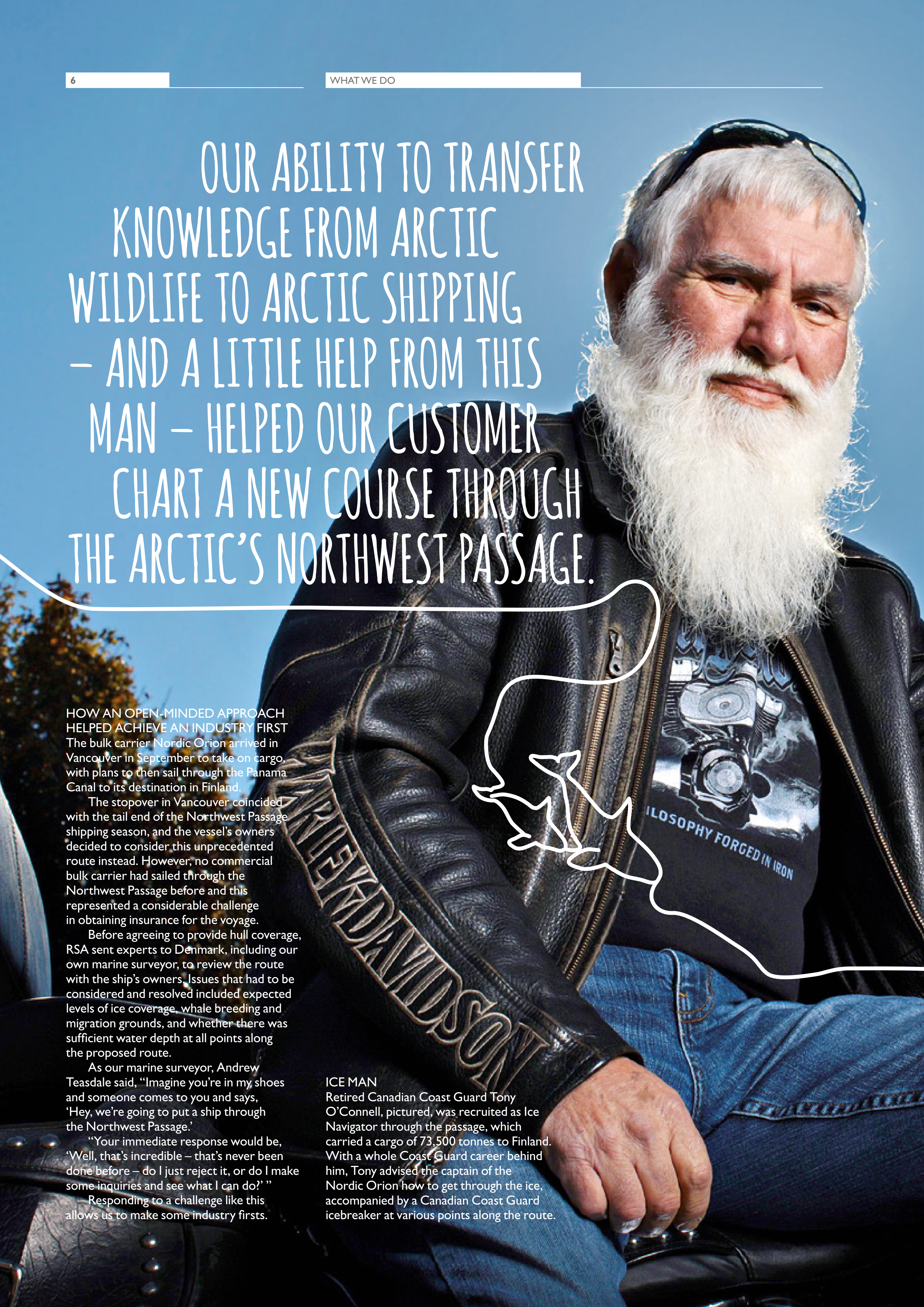
Our most senior technical and market experts are now exclusively available to work with our top brokers in the market to address their needs directly, which is something they have told us they value the most.

As part of our offering we have been reconfiguring our trading sites to create a new way of working which is designed around the needs of our top brokers. Whether they need a meeting space, a hot desk with wi-fi or just a place to think, our top brokers can drop in and use our trading sites as a place to work.

Our exclusive trading sites are staffed by the right experts, who have the authority to make decisions quickly and make things happen. All products and markets – from SME deals to global programmes, are available to trade through a local team of technical and industry experts backed by the breadth and depth of RSA.

Our product offers are constantly evolving because our customers' needs are too. And these are different all over the world, so we need to be agile and help our brokers keep up with the changes.

OUR ABILITY TO TRANSFER KNOWLEDGE FROM ARCTIC WILDLIFE TO ARCTIC SHIPPING – AND A LITTLE HELP FROM THIS MAN – HELPED OUR CUSTOMER CHART A NEW COURSE THROUGH THE ARCTIC'S NORTHWEST PASSAGE.



HOW AN OPEN-MINDED APPROACH HELPED ACHIEVE AN INDUSTRY FIRST

The bulk carrier Nordic Orion arrived in Vancouver in September to take on cargo, with plans to then sail through the Panama Canal to its destination in Finland.

The stopover in Vancouver coincided with the tail end of the Northwest Passage shipping season, and the vessel's owners decided to consider this unprecedented route instead. However, no commercial bulk carrier had sailed through the Northwest Passage before and this represented a considerable challenge in obtaining insurance for the voyage.

Before agreeing to provide hull coverage, RSA sent experts to Denmark, including our own marine surveyor, to review the route with the ship's owners. Issues that had to be considered and resolved included expected levels of ice coverage, whale breeding and migration grounds, and whether there was sufficient water depth at all points along the proposed route.

As our marine surveyor, Andrew Teasdale said, "Imagine you're in my shoes and someone comes to you and says, 'Hey, we're going to put a ship through the Northwest Passage.'

"Your immediate response would be, 'Well, that's incredible – that's never been done before – do I just reject it, or do I make some inquiries and see what I can do?' "

Responding to a challenge like this allows us to make some industry firsts.

ICE MAN

Retired Canadian Coast Guard Tony O'Connell, pictured, was recruited as Ice Navigator through the passage, which carried a cargo of 73,500 tonnes to Finland. With a whole Coast Guard career behind him, Tony advised the captain of the Nordic Orion how to get through the ice, accompanied by a Canadian Coast Guard icebreaker at various points along the route.

MORE IS MORE

25% more cargo was carried than would have been possible had it travelled through the shallower Panama Canal.

CONSIDERING THE ENVIRONMENT

Since 2009, RSA Canada has funded critical marine conservation projects. RSA applies information about Arctic wildlife and ice patterns to inform underwriting decisions for vessels and operations in Arctic waters.

SAVING TIME, SAVING MONEY

Fuel costs of $80,000 saved by taking the 1,000 nautical mile shorter route, versus the Panama Canal.

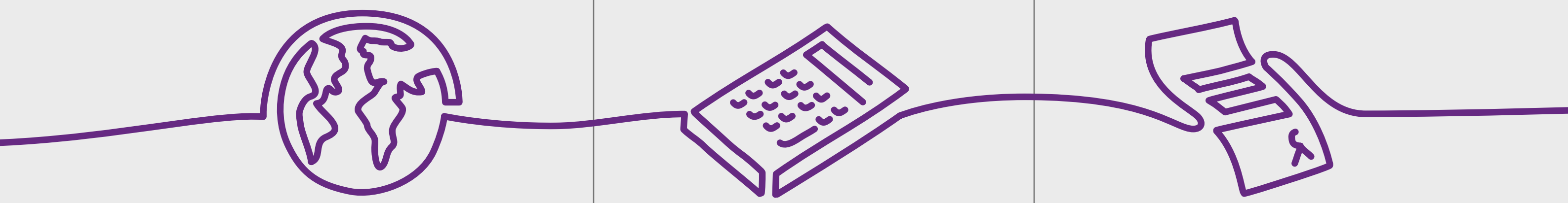
CHARTING A NEW COURSE

We insured the first fully loaded commercial bulk carrier, Nordic Orion, to sail the Northwest Passage

HOW WE CREATE VALUE

WHAT MAKES US DIFFERENT	UNDERSTANDING AND PRICING RISK We are in the business of risk management. We strive hard to understand the risks our customers want us to insure and make sure that we price our products appropriately.	EFFECTIVE PRODUCT/ CUSTOMER DISTRIBUTION We distribute our products through many different channels. Efficient access to customers is key if we are to continue to develop our business.
VALUE FOR OUR SHAREHOLDERS	ENSURES THAT SHAREHOLDERS ARE ADEQUATELY REWARDED FOR THE CAPITAL THEY PROVIDE We aim to achieve acceptable returns through making sure that underwriters understand the target price required to deliver target returns on capital.	THE MOST EFFECTIVE WAY TO GROW PREMIUM INCOME We strive to find the lowest cost route to the largest number of customers, tailoring our offering to meet the needs of specific markets.
VALUE FOR OUR CUSTOMERS	ENABLES CUSTOMERS TO MANAGE THEIR RISK APPETITE We work with our customers to make sure that they can reduce their risks, reducing premiums for them and claims costs for us.	ACCESS INSURANCE PRODUCTS IN THE WAY YOU WANT The way in which customers want to buy insurance is changing. We are at the forefront of these changes, anticipating customers changing needs to provide easy access to our products.
VALUE FOR SOCIETY	ENABLING SOCIETY TO GROW AND DEVELOP By effectively enabling risk transfer across society, we encourage entrepreneurship and innovation in the societies we work in whilst ensuring that society is protected from extreme events.	PLAYING OUR PART IN THE DIGITAL WORLD As more business is transacted online, we are investing to improve our customers' online experience and encouraging customers to embrace digital distribution.

WE MAKE A DIFFERENCE BY PROTECTING PEOPLE AND BUSINESSES AGAINST THE RISKS THEY FACE IN THEIR DAILY LIVES. WE PROVIDE UNRIVALLED EXPERTISE THROUGH OUR GLOBAL NETWORK OF PROVIDERS TO COVER EVERYTHING FROM HOUSES AND PETS, TO SKYSCRAPERS AND TANKERS, IN OVER 140 COUNTRIES WORLDWIDE.



GLOBAL EXPERTISE AND DIVERSIFICATION

As a global business we are seeking to maximise the benefits of our reach without losing touch with the differing needs of the many markets we operate in.

LOWER VOLATILITY OF EARNINGS AND LOWER CAPITAL REQUIREMENTS

The diversity of our business enables us to hold capital efficiently. Our global footprint diversifies our exposure to catastrophe events leading to lower volatility of earnings.

ACCESS TO BEST PRACTICE INNOVATION AND GLOBAL RISK COVERAGE

We are always looking to share ideas and best practice across countries giving customers access to innovative products and services. We can provide multinational customers with global product coverage.

SPREADING BEST PRACTICE

As markets evolve we can quickly export best practice from one country to another meaning that the best of RSA is available to all the societies we operate in.

PRUDENT INVESTMENTS

Our business generates significant assets which are prudently invested to deliver returns to shareholders.

ADDITIONAL INCOME WITHOUT PUTTING CAPITAL AT UNDUE RISK

Shareholders benefit from the returns on our assets, safe in the knowledge that our prudent approach is unlikely to jeopardise their capital.

CONFIDENCE THAT A CLAIM WILL BE PAID

Our substantial reserves which are invested in low volatility assets means that customers can be confident that we will pay claims when they are due.

ENABLING GROWTH AND PROVIDING CAPITAL

We invest in all the countries we operate in, providing capital to governments and corporates to enable economic growth.

MANAGING CLAIMS AND SERVING OUR CUSTOMERS

Our customers expectations are increasing. We aim to constantly improve the service we offer, and pay claims quickly and efficiently.

LOWER CLAIMS COSTS AND HIGHER RETENTION

Generally, claims which are settled quicker, settle for less, meaning claims ratios fall. Satisfied customers will stay with us for longer reducing acquisition costs.

ACCESS TO ANCILLARY SERVICES

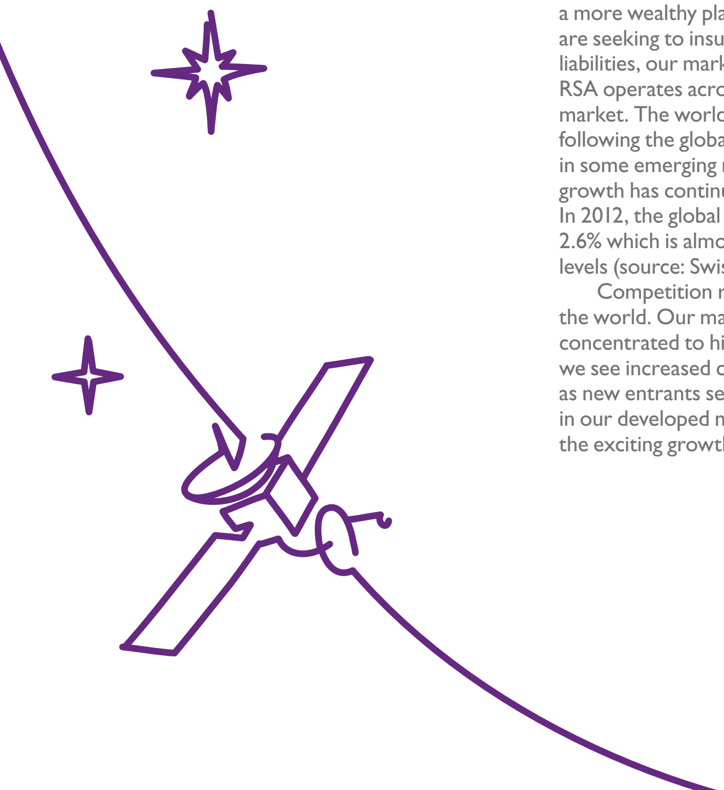
Increasingly our customers are looking for more than just claims payment. For instance, access to our supply chain to enable lower costs of ancillary services allied to the core insurance product or risk management to prevent claims occurring.

HELPING SOCIETY RECOVER FROM DISASTERS

When catastrophes strike, we help society get back on track quickly, through settling claims fairly and efficiently.

MARKET DYNAMICS

AS A GLOBAL INSURER WE ARE ABLE TO WRITE BUSINESS IN 140 COUNTRIES. THIS GIVES US A UNIQUE PERSPECTIVE ON THE MACRO TRENDS IN THE GLOBAL PROPERTY AND CASUALTY SECTOR.



MARKET OVERVIEW

Our role is to help protect our customers from the risks they encounter in everyday life. The global property and casualty (P&C) market currently generates USD 1,992bn of premiums each year (source: Swiss Re Sigma). As the world becomes a more wealthy place and more customers are seeking to insure their assets and liabilities, our market continues to grow. RSA operates across much of the global market. The world is returning to growth following the global financial crisis, although in some emerging market countries healthy growth has continued throughout the crisis. In 2012, the global P&C market grew by 2.6% which is almost back to pre-crisis levels (source: Swiss Re Sigma).

Competition remains strong across the world. Our markets range from highly concentrated to highly fragmented although we see increased competition in most, as new entrants seek to capture the value in our developed markets as well as accessing the exciting growth in emerging markets.

THE TRENDS THAT SHAPE OUR WORLD

Customers' needs are constantly changing – both in terms of what they buy and how they buy it. Our product range continues to evolve as we respond to these changing needs. Furthermore we continue to respond to changing distribution trends. The pace of internet adoption varies across the world, but in all countries we are seeing growing demand for online sales and service – we are responding by recycling the capabilities we have in more mature markets (for example the UK) into those areas which are only just beginning to adopt online purchase of insurance (for example Scandinavia and Emerging markets).

Technology is also driving change in our underwriting and claims functions. As the volume and availability of data around the world continues to grow, we are increasingly looking to integrate new data into our processes. For example, we are working with Ingenie, a telematics provider, in the UK to explore how data on driving style can inform our underwriting decisions.

Weather frequency and severity appears to be increasing across the world. In 2013, we suffered some of the worst natural catastrophes in recent years including heavy flooding in Canada and windstorms in Europe. We are working hard to understand these changing weather patterns and to ensure that risks are effectively priced and claims can be managed quickly. The need to develop a lower carbon economy is driving demand in our renewable energy business.

One effect of the global financial crisis has been to create a world with prolonged low interest rates in many of the countries we operate in. Lower rates means lower investment income, which means we need to ensure that underwriting returns improve.

Finally, we are seeing an increasing burden of regulation in many of the markets we operate in as regulators respond to a post crisis world. This creates pressure on cost and capital but also means we increasingly need to look at our businesses as stand-alone entities as well as part of the overall Group.

THE DIVIDE BETWEEN MATURE MARKETS...

In many of our mature markets, insurance has been a part of most customers' lives for many years. They understand the benefits that insurance can offer and are increasingly looking for low prices, tailored products and high levels of customer service from brands they trust.

…AND EMERGING MARKETS

In our emerging markets, insurance is less mature. As customers' assets and liabilities increase they are looking to buy protection, often for the first time. For these customers education, ease of access and simple products are key to continuing to drive growth.

Serving the global community

The global trends in this map are affecting insurance markets across the world. As a global insurer we work with our partners to anticipate and understand these trends, and improve our business model...

...whilst respecting local differences. But each of the markets we operate in are different – different cultures, legal and regulatory structures, distribution models and product demands. Our business needs to be flexible to ensure that we tailor our model to reflect the demands of local communities.

OUR MARKET UNITS

We operate in 32 countries which we organise into four regions.

1

CANADA

As the world's 11th largest economy, Canada has been an attractive and stable economic environment for some time now. It has outperformed the G7 in terms of GDP growth over the past decade, and prospects for future growth are good.

Canada has a significant general insurance market with premiums of approximately $43bn, or 2.5% of GDP. It is a stable and consolidating industry that has been growing steadily at around 4% over the last five years, despite a recessionary period, and average global insurance growth of less than 2%.

As the world's second largest country, Canada has a wide geographic spread of risk. It broadly divides into four regions, with the spread of insurance impacted by varying geographic, socioeconomic and regulatory dynamics.

The Atlantic region consists of four provinces with a small and rural population. Quebec is the second largest P&C market, but is the most profitable. Ontario constitutes the largest population and GDP, and therefore it is the largest P&C market. Of note is the size of the Ontario Auto market which accounts for 25% of the total industry premiums. Lastly, the West, which consists of four provinces, and is the fastest growing economic and insurance region in Canada, given expansion in its rich resource sector.

The largest line of business across Canada is personal auto, which is the only provincially rate-regulated insurance product in the country. This means that insurers can't compete with a single national product, and auto rates can take up to six months to be approved. Additionally, primary auto insurance is provided by government insurers in the provinces of British Columbia, Saskatchewan, Manitoba and partially in the province of Quebec.

2

UNITED KINGDOM AND WESTERN EUROPE

The UK economy has shown clear signs of recovery in 2013 and is now leading the major economies in the West. Growth of close to 2.5% is forecast for 2014. Whilst the services sector is leading the recovery, the UK manufacturing and construction sectors are also picking up.

Despite this, consumers are still price conscious, and consumer spending is expected to recover only gradually over the next few years. The prospects for further energy and food price rises, as well as eventual upward pressure on interest rates, may serve to dampen this.

In Italy, the economy shrank in 2013, but is forecast to return to modest growth in 2014 as the government tackles the significant budget deficit. In Ireland, the economy has emerged strongly from recession following the wide ranging austerity measures and is forecast to grow in excess of 2.5% in 2014.

1

3

SCANDINAVIA

Together, the three Scandinavian countries where we are present represent approximately £800bn of GDP and comprise 20 million people.

Denmark, Norway and Sweden are generally perceived as financially safe economies, and all three countries have been top-rated among the leading major credit rating agencies. All countries have small open economies very dependent on export. They all recovered well after the 2009 downturn, and have already reached the pre-crisis level when measuring export per capita. This is expected to improve even further into 2014.

There is a very consolidated insurance market structure across the region with the top four firms controlling between 60% and 80% of the market. Most players are big in two of the three countries, and smaller in the third. Also, in our two largest markets, Sweden and Denmark, the market structures have been very stable for many years.

Whilst the product mix across P&C is similar to the rest of the world, there are some special product areas, like Sickness and Accident insurance, Workers Compensation and Renewable Energy, that are more unique to Scandinavia.

In terms of distribution, there is virtually no broker activity in Personal lines. A lot of business is still sold by agents selling face to face but the dominant channel is direct to customers through call centres.

Perhaps surprisingly, the number of customers completing a sale on the internet is pretty low. This currently stands at around 1–2% in Denmark and 15% in Sweden. Whilst a large proportion of customers actually do go online to get an initial quote, they tend to want to complete the sale over the phone. Nevertheless, we expect the level of completion online to steadily increase in the future.

In Commercial lines, around 60–70% of business is written directly, with a majority of the customers using Agents. Brokers are an important distribution channel but only represent around 30–35% of business.

2

4

EMERGING MARKETS

Whilst growth prospects in Emerging Markets are cooling they remain relatively strong.

In Latin America, medium-term economic growth of between 2 and 5% is expected across the region. Unemployment rates are at historic lows and are expected to remain stable. Whilst interest rates have declined they remain stable and are significantly higher than in US and Western Europe. Exchange rate volatility has been a feature across the region. Our assets and liabilities are well matched by country which means that the primary foreign exchange exposure we face is on translation of results into Sterling.

In Central and Eastern Europe, the economic environment has been steadily improving with good growth prospects across the region. Interest rates and unemployment are stable. The introduction of the Euro in Latvia in 2014, and Lithuania in 2015, is expected to drive increases in foreign investments.

Across the Middle East, growth of around 5–7% continues to be strong and is supported by high oil prices and Government action in response to the Arab Spring. Buoyant new car sales are expected in the UAE (10% compound growth over the next three to five years).

In Asia, Hong Kong is expected to deliver economic growth of 2–3% in the medium-term. The non-life market in Singapore is fiercely competitive, whilst we are seeing increasing specialty lines activity from London and European insurers across the region.

IMAGES

1 *Surveyor in Uruguay*
2 *Windfarm in Denmark*

CHAIRMAN'S STATEMENT

MARTIN SCICLUNA
Chairman

FOLLOWING AN EXTREMELY TOUGH 2013, WE ARE TAKING SWIFT AND DECISIVE ACTION TO IMPROVE THE CAPITAL STRENGTH OF THE GROUP AND OPTIMISE THE GROUP'S PORTFOLIO.

There is no doubt that 2013 was a difficult year for RSA. Extreme weather across Scandinavia, Canada, and the UK and Ireland coupled with the problems we identified in Ireland in the final quarter led to a very disappointing performance for the Group. This, together with our decision to write down certain goodwill and intangible assets, led to a loss after tax of £338m.

In Canada we experienced heavy flooding in Alberta in June and Toronto in July, as well as a significant ice storm in Toronto in December. Northern Europe was badly affected by three storms which swept across the continent in November and December. These events created one of the worst years for weather claims at RSA for some time with weather losses £112m worse than our initial expectations for 2013. However, extreme weather is something we are used to, albeit not at the levels we experienced in 2013.

What we didn't plan for was a £200m loss in Ireland which was caused by a combination of management irregularities and the need for significant reserve strengthening. The issues which emerged in Ireland are totally unacceptable and have led to a thorough review of our risk and control processes which have included the involvement of external independent firms. As we expected, these reviews confirmed

our view that the issues in Ireland were isolated to Ireland, but we are further tightening our processes across the Group to ensure that these types of events do not happen again.

In early December, the Board accepted the resignation of Simon Lee, the Group Chief Executive, and asked me to assume the responsibilities of Executive Chairman. I would like to thank Simon for his contribution to RSA over the last decade and also over the last two years as Group Chief Executive, a period that has featured a number of significant challenges. The Board wishes him well for the future.

In addition to these issues, the Group continued to face headwinds from the prolonged low interest rate environment which continues to depress investment income. Moderation of anticipated economic growth across our emerging markets has, in part, been offset by an improving outlook in our developed markets of the UK, Canada and Scandinavia.

Despite these very challenging events, I remain firmly of the view that RSA is a high quality business with much to offer shareholders. Our market positions in the territories we operate in are very strong and we have excellent people who are committed to delivering for our customers and, in turn, delivering for our shareholders. This commitment was very much in evidence in helping our customers through the impacts of the extreme weather they experienced in 2013.

At the end of 2013, the Board reconsidered the capital position of the Group in light of recent events, and agreed to conduct a thorough review of the business with the objectives of improving the capital strength of the Group, optimising the Group's portfolio and delivering a sustainable dividend into the future.

Part way through this business review, on 4 February 2014, I was very pleased to be able to announce the appointment of Stephen Hester as RSA's new Group Chief Executive. He is an exceptional business leader with extensive global financial services expertise. He has an outstanding track record of transforming the performance of businesses, bringing new energy and focus, and implementing a challenging agenda to ensure significant value is delivered for customers and shareholders. Stephen started by immediately picking up the reins on the business review, and I reverted back to my role as Non-Executive Chairman.

At the end of February 2014, this review had progressed well, and has and will lead to a number of changes to the Group's portfolio and structure. At the time of writing, selected business disposals are already underway, and we are shrinking our exposure to less profitable markets. We have also taken other actions to strengthen our capital position, such as the sale of most of our equities portfolio and the purchase of additional reinsurance protection. Finally, at our Preliminary Results Announcement on 27 February 2014 we announced our intention to raise capital through a rights issue. It is a difficult decision to ask shareholders for additional financial commitment and the Board did not take this decision lightly. The Board firmly believes that this is in the best interests of RSA and all of its shareholders and other stakeholders.

Regrettably, the impact of our 2013 results and the rights issue that we intend to launch, do not justify the payment of a final dividend.

In addition to the appointment of Stephen as Group Chief Executive, we welcomed another new Board member, Kath Cates, during 2013. Kath brings a wealth of financial services experience to the Board.

Edward Lea and Malcolm Le May have indicated that they do not intend to stand for re-election at the forthcoming Annual General Meeting and will retire as Directors with effect from 8 May 2014. I would like to thank them both for their contribution to RSA. With effect from that date, Johanna Waterous will succeed Edward Lea as the Senior Independent Director and Kath Cates will succeed him as Chair of the Board Risk Committee. Jos Streppel will succeed Malcolm Le May as Chair of the Group Investment Committee on the same date.

The sign of the true strength of an organisation is how it deals with adversity. Despite a very challenging year, I have been impressed by the quality of our people and the way they have remained focused and committed to the organisations goals. I look forward to a much better year in 2014.

Martin Scicluna

Martin Scicluna
Chairman

2013: A CHALLENGING YEAR

2013 was a very disappointing year for the Group. We uncovered irregularities and the need for significant reserve strengthening in our Irish business, and also faced challenging weather conditions across our operations in Canada, Scandinavia and the UK.

IRELAND

THE ISSUES:

During the second half of 2013 we announced two significant issues in our Irish business.

1. As a result of a routine internal audit, the terms of which were informed by the outcome of a Central Bank of Ireland review, we identified financial impacts of £37m primarily due to irregularities within our Irish claims and finance functions, and £35m primarily due to inappropriate accounting for net earned premiums and pipeline earnings. The irregularities involved inappropriate collaboration on large loss and claims accounting.
2. During the course of 2013 we identified issues with bodily injury claims in our Irish business. This prompted a full internal review of the Irish reserves, resulting in the announcement of £128m of reserve strengthening of which around half related to business written in 2013 and around half related to business written in previous years. Around three-quarters of the overall strengthening was due to the adverse bodily injury trends.

TIMELINE:

October 2013 – conclusion of internal audit work in Ireland on reserving for notified claims.

5 November 2013 – we announced that we had commenced a review of our Irish reserves with the probable need for strengthening.

8 November 2013 – announced the suspension of RSA Ireland's CEO, CFO and Claims Director, pending the outcome of an investigation into issues in the Irish claims and finance functions. Announced capital injection into RSA Insurance Ireland.

10 November 2013 – announced the appointment of PwC to undertake a comprehensive review of the issues identified in the Irish claims and finance functions.

28 November 2013 – announced the resignation of RSA Ireland's CEO, Philip Smith.

13 December 2013 – announced the completion of the Irish reserve review and a further injection of £135m of capital into RSA Insurance Ireland.

8 January 2014 – following an internal disciplinary process, RSA Ireland's CFO and Claims Director were dismissed for their roles in the irregularities.

9 January 2014 – announced the findings of PwC's review which describes the RSA Group Control Framework as appropriate in terms of structure and design, and that inappropriate collaboration amongst a small number of senior executives in Ireland undermined control effectiveness over claims. Also announced that additional assurance testing from newly appointed external auditor KPMG and RSA Group Internal Audit confirmed that the irregularities were isolated to Ireland.

OUR RESPONSE:

The work of PwC, KPMG and RSA's Group Internal Audit confirms the Board's view that there is nothing fundamentally wrong with RSA's Control Framework and the issues identified were restricted to Ireland.

Nevertheless, we acknowledge that there are lessons to be learnt and we are tightening elements of our Control and Financial Framework in response to these events. Specifically, there are four key things we are in the process of addressing:

1. As a result of the issues in Ireland we are ensuring that the appropriate checks and balances in our operating model are working properly and that we can demonstrate their rigour and independence.
2. We are reviewing how we ensure that Group policies are adhered to and implemented appropriately locally, and tightening up the procedures where necessary.
3. We are tightening up our processes to reduce the risk of management override and inappropriate collaboration.
4. Finally, we are ensuring that our whistleblowing policy is recommunicated to all employees and is effective and properly understood.

WEATHER

During 2013, RSA was affected by extreme weather conditions across some of its major markets. This has had a significant impact on profitability for the year, with adverse weather accounting for 3.5 points of the combined ratio. Our priority at these difficult times is on providing care and support to our customers, brokers and affected local employees. In response to the increasing impact that adverse weather is having on the insurance industry, we have increased our planning assumption for weather to 3.0 points of the combined ratio.

IMAGES

1 *Fallen tree obstructs a road* Kalvehave, Denmark, October 2013.

2 *Aftermath of the ice storm* Toronto, Canada December 2013.

EUROPEAN WIND STORM XAVER

Impacted Denmark and Sweden on 5 December. We also saw exposure in our UK business. Wind speeds peaked at nearly 100mph close to the border between Denmark and Germany. The total net cost to RSA was £33m.

EUROPEAN WIND STORM ST JUDE

On 27 and 28 October, a severe windstorm affected Northern Europe, including the UK, Scandinavia and the Baltics. The majority of the UK was affected by peak wind speeds of up to 60mph. Scandinavia experienced very strong winds in several heavily populated areas. The storm increased in strength over the North Sea and over Denmark, with wind speeds hitting more than 110mph, the highest ever measured in Denmark. This was reflected in the level of building damage with an exceptionally high level of roof damage. In addition, the storm tracked directly over the heavily insured areas of Aarhus and Copenhagen in Denmark, and Malmo and Gothenburg in Sweden. The average wind speed was 88mph and the damage was primarily caused by wind damage with minimal impact from rainfall. The total net cost to RSA across Scandinavia and the UK was £36m

ALBERTA AND GREATER TORONTO AREA FLOODS

In June, Calgary and the surrounding areas of Southern Alberta experienced major flooding following heavy rainfall and resulting river overflow. The floods were the costliest natural disaster in Canadian history with an estimated insurance industry loss of around CAD$1.7bn. Over 1,000 claims were reported to RSA, with the majority of losses coming from Commercial customers. The net cost to RSA was £44m.

In July, record rainfall in the Greater Toronto Area resulted in flash flooding, blackouts and public transit disruptions. The 126mm of rain surpassed the previous single-day rainfall record which had stood since 1954. Around 2,500 claims were reported to us and, with an estimated insurance industry loss of around CAD$0.9bn, this event was the third costliest natural disaster in Canadian history. The net cost to RSA was £38m.

DECEMBER UK STORMS

Severe adverse weather impacted the UK in late December with strong winds, heavy rainfall and significant flooding. Claims notifications to RSA peaked at nearly 40 times the expected daily level for these dates. The net cost to RSA was £14m.

ATLANTIC ICE STORM

A severe ice storm (a storm which results in the accumulation of at least 0.25 inches of ice on exposed surfaces) hit Toronto and Eastern Canada in December with significant damage to trees, resulting in extensive power cuts, property and auto damage. The net cost to RSA was £12m.

GROUP CHIEF EXECUTIVE'S STATEMENT

STEPHEN HESTER
Group Chief Executive

WE BELIEVE RSA CAN BE A STRONGLY PERFORMING COMPANY WITHIN ITS INDUSTRY AND WE HAVE PUT IN PLACE DETERMINED ACTION PLANS TO ACHIEVE THAT GOAL.

May I say firstly that I am greatly encouraged by, and appreciative of, the welcome extended by the Board and the wider RSA team. We are in the difficult position of both asking shareholders for significant funds and announcing poor results for 2013. I therefore want to offer you my initial views on RSA, its strengths and weaknesses, as well as give you a sense of how I see the way forward.

There is no shrinking away from hard truths or the action that must be taken. Good work has been done in setting up the strategic review we report on. There is strong backing from the Board and within the company for the path ahead.

We believe RSA's core businesses to be competitively strong and capable of good performance. They are managed by skilled and dedicated staff whose services will be essential in the years ahead. I have found nothing since joining that leads me away from the view that, with the right focus and strategy, RSA can achieve its potential.

So our mission is clear. There is significant change to bring about, and through that we must manage RSA with clarity, determination and effectiveness. Our goal is to make the Group's business attractive, sustainable and as valuable as it can be.

We operate across three dimensions:

- Customers are our lifeblood. Serving them well is our purpose. Across RSA our businesses are in good shape based on the confidence and trust of the 19 million customers we serve. But we aspire to keep improving, and our industry is tough, competitive and evolving. To improve and to succeed is a constant battle. It will require a tighter focus on what we do best; a more disciplined and effective use of technology; a tougher approach to cost efficiency; and a greater focus on improving the returns on capital across more of our business lines.
- We are in a capital intensive, regulated industry. After the world's economic shocks of 2008–09, the capital bar is being set ever higher. RSA cannot achieve its objectives without a strong capital position. Our customers, rating agencies and regulators demand this, as we must demand it of ourselves. Without such strength, and the discipline to sustain it, the company cannot succeed. Business and strategic decisions become constrained and suboptimal, and the company's potential will not be realisable.
- We work for our Shareholders. Our job is to set a disciplined strategic framework within which our potential can best be realised. We need to operate crisply and effectively within that framework to build the best performing businesses that we are capable of. We need to communicate clearly what we are doing and why, and to ensure it represents the best long-term path to shareholder value.

Our 2013 results

At a normalised level our 2013 results show the capabilities and potential of the core businesses we must build on. On £8.7bn net written premiums, the combined ratio was just 99.6% with an underwriting profit of £57m. But that would be a ratio of 96.8% and a £309m underwriting profit adjusting out the issues in Ireland, above trend weather and reserving actions in the year.

The operating results in 2013 are poor overall. RSA's problems in Ireland and weather issues across the Group hit hard but are recognised and action has been taken. Our businesses in Canada, Scandinavia and Latin America are leaders in their respective markets and offer the potential for good returns and premium growth. In the UK, we have the opportunity and need to improve our performance and have already started this journey, although there is more to do in this tough competitive market. Low interest rates are set to restrain Group investment income for some time. And our spread of smaller market activities is an investment distraction too wide for success.

We have also taken some significant non-cash charges at the year end to recognise the facts of the situation we now deal with. There is some goodwill from past acquisitions we need to write down. Our UK business spent heavily on (capitalised) technology between 2006 and 2011 which has not produced the scale of improvement targeted and needs to be partly written down. Prudent management dictates that we lower the discount rate on long-tail liabilities. The Towers Watson review of our overall reserves has confirmed that they fall within a range of reasonable best estimates.

Our capital position

There is no single capital measure that captures what we need to achieve. But across the various ratings, internal and regulatory measures, we simply do not have enough tangible equity to properly support our business. This is partly due to 2013 setbacks and partly to rising regulatory standards. But it also reflects a business that over some years has become gradually undercapitalised and overleveraged, and has suffered from weakened tangible equity with acquired goodwill, software expenditure and high dividends relative to profits earned. In the future, we intend to maintain stronger capital metrics targeting at least median comparable industry levels.

We are taking strong action and already in 2014 improvement has come from a £550m Adverse Development reinsurance policy taken out, the sale and leaseback of our Swedish headquarters and the sale of most of the equities in our investment portfolio. Selected business disposals are underway and we have a target for 2014 of £300m of proceeds from these. There will be other smaller non-core disposals thereafter and a tougher regime throughout the Group of capital discipline, including significant portfolio reductions where target risk/return metrics are not reached. We are sharply increasing our focus on expenses and aim to improve expense ratios across the business with associated restructuring costs for implementation to come.

However, this self-help, while extensive, is not enough. Further disposals at this time would take too long and be uncertain as to value, especially were we to be perceived as distressed sellers. They would also risk value damage from loss of capital diversity and heavier weighting of legacy liabilities in the remaining group.

We reluctantly concluded we must ask shareholders, via a rights issue, for a substantial sum to augment the 'self help' and complete our capital plan. This issue, which has been fully underwritten on a standby basis by our banks, at £775m represents c.20% of our market value as at 26 February. This money is needed to get our capital position to a strong place, anticipatory of industry capital trends and allow our action plan for the business to be constrained by value and not by capital distress. It is needed to protect shareholders' existing investment in RSA and to allow the actions we plan to make the most of our future value.

The actions already taken, together with the proposed rights issue (which is fully underwritten), will increase our capital surplus on an Insurance Groups Directive (IGD) basis to an estimated £1.3bn and on an Economic Capital (ECA) basis to an estimated £1.4bn. Ongoing action, including disposals, will improve this further.

A new strategic focus

RSA will be operated with discipline and effectiveness to serve customers well, and build shareholder value from a strong capital platform across its main core businesses. These are in the UK and Ireland, Scandinavia, Canada and Latin America. Our geographical spread will reduce considerably outside this core Group over the next few years. There will also be business lines within the core group which we adjust significantly. We target business where we can sustain leadership positions with customers whilst earning better than cost of capital for shareholders. We value diversity and balance provided it does not come at the expense of those core disciplines and provided our Group has the resources and capitalisation to succeed with the business we take on.

We will consider further options as the Group stabilises. If there are sensible alternatives to further reduce legacy risks or otherwise create value we will examine them.

The impact of the 2013 results is that a final dividend cannot be justified. We regret this. However, we are clear that dividends are an important component of shareholder returns for companies in the general insurance industry, and RSA will be managed with that goal in mind. Looked at in this early stage of RSA's recovery actions, a medium-term goal of paying out 40–50% of earnings in dividends seems sensible. Should unused surplus capital still develop this can be returned to shareholders through other means. The pace with which dividends return to this target range will be determined by the pace and success of execution of our recovery plans, by markets and by the evolution of capital requirements from rating agencies and regulators. Any 2014 interim dividend, so soon after the proposed rights issue proceeds are received, is likely to be modest.

Our action plan

The key ingredients of our plan are therefore:

1. Tighten the strategic focus of the Group so we can concentrate on performing sustainably well in core businesses.
2. Reset the quantity and quality of capital strength the Group works with, and the disciplines that will sustain it. This requires focus and transparency on risk profile as well as on the capital that supports it.
3. Improve business performance and the Groups ability to sustain it. This means underwriting, portfolio, expense and distribution actions. It means technology actions and people actions too.

Together, these actions represent a fast and determined 'reset' of RSA's direction and finances. However, it is likely to take a few years to get the whole of the Group performing as we would like. In the earlier part of that period there are likely to be other adjustments to strategy and finances as the overhaul deepens and takes hold, not least in terms of reorganisation programmes and technology investments.

We currently hope to achieve returns in the 12–15% range on tangible equity over the medium-term on an equity base that rises still further as a result of completing the actions we have outlined.

RSA in the future

Our strong and shared ambition is to see RSA as a resilient and valuable company, performing consistently at its best. We are a leading, international insurer. Where we do business we will do it well, and be known for our service and appeal to customers.

Our finances will be solidly based and provide a resilient platform from which to do business, and with a strength all can trust.

Our business needs to operate well relative to comparable peers and make returns in excess of the cost of the increased tangible capital we will employ. We will keep working until that is achieved.

Stephen Hester
Group Chief Executive

OUR STRATEGIC PRIORITIES

INSURANCE IS OFTEN PERCEIVED AS COMPLEX TO UNDERSTAND. UNDERPINNING OUR STRATEGY ARE A NUMBER OF PRINCIPLES WHICH AIM TO ADDRESS THE CONCERNS INVESTORS AND OTHER STAKEHOLDERS HAVE ABOUT THE INSURANCE SECTOR.

Through achieving our strategic priorities, we aim to build a business which stands out within the insurance sector due to its prudent management, balance sheet strength and clarity of communication. We are present in many of the most attractive insurance markets in the world and we either have, or are building, profitable market-leading positions in these markets. We continue to work hard to improve the efficiency of the business without compromising our high standards for customer service.

Through the successful execution of these strategic priorities, we will deliver value to shareholders through above average returns on a growing tangible net asset base, as well as through our dividend policy.

I

PRUDENTLY MANAGED

Our aim is to manage our business in a conservative manner to ensure that shareholders are not overly exposed to volatility or unexpected risks. In practical terms this means ensuring that:

- Risks are identified early with sensible mitigating actions put in place. This is why we were especially disappointed when the issue in Ireland emerged in 2013. We set very high standards for our people to maintain and when people fall short of those standards we are committed to taking decisive action.
- Accounting policies and treatments are set to ensure that an appropriately prudent view is maintained. For instance during 2013 we adjusted our assumptions for discounting liabilities to more closely reflect the low yield environment.
- Asset allocation and investment management policies are cautious. We are largely invested in investment grade sovereign and corporate bonds with minimal exposure to higher volatility classes such as equities.
- Appropriate use of reinsurance is made to reduce exposure to catastrophe and other insurance risk. During the year we increased our reinsurance buying to protect shareholders from the extreme weather events we encountered.
- Using external independent bodies to check our work and ensure standards are maintained. During 2013, in addition to the use of KPMG, our external auditor, we employed experts in reviewing our handling of the Irish issues, and in reviewing the adequacy of our reserves across the world.

2

WELL RESERVED

One of the biggest risks any insurance company runs is to ensure that reserves are adequate. When we write insurance business we make assumptions about the likely level of claims and book reserves to ensure that we put aside sufficient amounts to pay these claims when they fall due. Our philosophy is to ensure that these reserves are booked to the prudent side of our best estimates of the likely claims. This involves ensuring that claims are correctly assessed and involves the use of actuarial modelling to ensure that we have an informed view of the likely future cost of claims.

At the end of every quarter we undertake a full review of the adequacy of our claims reserves and, where appropriate, make adjustments to the reserves. This can lead to either reserve strengthening or, if experience is better than we have planned, reserve releases. Our track record is good with nine years of positive reserve releases, although in every year there are some portfolios which require strengthening. During 2013, we still delivered positive reserve development despite significant strengthening of reserves in Ireland and UK Liability.

In early 2014, we asked Towers Watson, the actuarial firm, to undertake an independent external review of our reserves. They concluded that RSA's actuarial indication net claims reserves fall within a range of reserves regarded as reasonable by them.

Our own assessment of the margin in reserves (the difference between our actuarial indication and the booked reserves in the financial statements) is 5% of total booked claims reserves.

3

COMFORTABLY CAPITALISED

In addition to any margin in claims reserves, insurance companies need to ensure that they hold sufficient capital to deal with the inherent uncertainties in the insurance world. Going forward, we are ensuring that we hold sufficient capital to withstand all but an extreme shock to our business.

There are several ways to measure capital adequacy within an insurance company. Our lead regulator, the PRA, focuses on two measures. Firstly, the Insurance Groups Directive (IGD) or Solvency I ratio and secondly, the Individual Capital Assessment (ICA) ratio. In addition we run an internal economic capital assessment model (ECA) which assesses the likely capital requirements of the group in an extreme stressed scenario.

Going forward we will aim to maintain a strongly capitalised balance sheet with a focus on tangible shareholders' equity. If capital levels fall and our target ratios are breached, we will take remedial action. Any capital above target levels will be an indication of the surplus capital in the Group available for investment or return to shareholders.

4

EASY TO UNDERSTAND

We recognise that insurance is a complex business and that this complexity sometimes puts off investors from investing in the sector. We are committed to improving the simplicity and depth of disclosure about the business to help investors understand the strategy and prospects for the Group.

During 2013 we have:

- Prepared and delivered investor briefings on our Scandinavian and Canadian businesses which have been made available to all investors through online channels.
- Improved the quality of disclosure on prior year reserve releases to demonstrate the sustainability of this income stream.
- Introduced new disclosure on regional allocation of capital and regional returns on capital to help investors understand the relative performance of each region.
- Provided full and open disclosure on the issues we uncovered in Ireland.
- Engaged with all investors, both large institutions and smaller retail investors, through a proactive programme that included meeting with around 450 investors during 2013.

We remain committed to this programme of improved disclosure and to making ourselves available to investors to help them with their investment decisions.

5

FOCUSED ON MARKETS WHERE WE CAN ACHIEVE PROFITABLE GROWTH

We remain committed to active management of our portfolio. We have an attractive portfolio of businesses which provide a good mix of exposure to developed markets as well as high growth developing markets. Where we do not believe that we can achieve attractive returns for shareholders in a market we will take decisive action to remediate that business or, in more extreme circumstances, exit from that market. Where we see opportunities to deploy additional capital in a market, we will seek to do so, providing the Group's capital standards are not breached.

Scandinavia

We are the number three P&C insurer in Sweden and Denmark, and number seven in Norway. These markets are very profitable with a highly consolidated market structure. The market structure has been very stable for a number of years with market shares changing very little. Distribution is almost exclusively via direct channels and there is a tendency for customers to buy most of their insurance from a single provider.

We have demonstrated a consistent track record of strong profitability with combined ratios in the high 80s. RSA is the only Global insurer with significant retail and commercial operations in Scandinavia. As such, we believe that this gives us strategic advantage – in terms of sharing expertise from the rest of the Group with the Scandinavian business, as well as helping financial performance through access to the Group's reinsurance programme and capital diversification.

Canada

We have a top four position in Canada's P&C insurance market, up from 10th position in 2005. We're uniquely positioned in terms of distribution in the Canadian marketplace with an established offering across intermediated, direct and affinity channels which means that we are attractive to a broad base of customers. We have built a speciality business with leadership positions in chosen segments, and we have a proven track record of acquisitions and outperformance. Our 2012 acquisition of L'Union Canadienne in Quebec completes our footprint across the entire country. We have a track record of good financial performance with combined ratios normally in the low 90s. All of these place us in a great position to take advantage of industry trends going forward.

UK and Western Europe

We are one of the largest commercial insurers in the UK and have a sizeable personal lines business. Whilst the UK insurance market has been a tough environment in which to operate, we know that when economic conditions improve, it is a market that offers attractive returns. We are a leading Commercial Property insurer in the UK and we have a leading Marine business.
In personal lines, our Household and Pet businesses benefit from our strong relationships with some of the UK's most recognised retailers, and offer good returns on capital. The UK insurance market is mature with high penetration and, therefore, growth prospects are linked to the outlook for wider economic growth. On an underlying basis we would expect to grow in line with anticipated low single-digit market growth.

Emerging Markets

The emerging markets continue to offer an attractive mix of growth and improving profitability. Many of these markets are characterised by a rising middle class with increasing disposable income and insurable assets which, together with the prospect for fast growing insurance penetration, provides exciting opportunities. We are particularly attracted to Latin America where we have a strong presence across the region.
We are the number one insurer in Chile, number three in Uruguay, and a leading insurer in Argentina. We also have a leading Marine business in Brazil, and businesses in Mexico and Colombia.

6

EFFICIENT COST BASE

In order to maximise profits for our shareholders we need to ensure that we are effective at managing our cost base. This is something that we do on an ongoing basis, for example:

- In Scandinavia we are implementing a new product system which, in addition to reducing our costs, will improve the quality of our products and service.
- In the UK, we have delivered a 13% reduction in headcount in the last two years.
- In Canada, we have successfully completed the integration of L'Union Canadienne which we acquired in 2012. Not only will this lead to a more efficient business through synergy benefits, but also gives us increased exposure to the highly attractive Quebec market.

Looking ahead to 2014, we will continue to seek opportunities to reduce our cost base.

7

THINK CUSTOMER

At RSA we aim to put customers at the heart of everything we do, and it's something we've been committed to for over 300 years.

Delivering for our customers is an important part of our strategy. We believe in building strong and profitable long-term relationships with our customers, encouraging them to buy more, stay longer and recommend us. With increasing competition and challenging market conditions, we believe that delivering for our customers is more important now than ever.

In 2013, we launched a new programme to re-engage all our people to 'Think Customer'. We want to ensure that all our people remain highly focused on innovation and continuous improvement of the customer experience, using timely and relevant customer insight. Our new customer programme works hard to ensure this. The programme includes rolling out a new set of values which underpin how we will deliver for our customers now, and in the future. This programme will continue to roll out during 2014.

To ensure we remain on track with our commitment to delivering for our customers, we use key goals such as Net Promoter Score (NPS) and Customer Engagement to measure our performance over time.

KEY PERFORMANCE INDICATORS

WE CONSIDER THAT THE FOLLOWING NINE KEY PERFORMANCE INDICATORS ARE IMPORTANT IN MEASURING THE DELIVERY OF OUR STRATEGIC PRIORITIES.

1 NET WRITTEN PREMIUMS (NWP)

Definition
Premiums in respect of policies written during the year, less any costs associated with purchasing reinsurance protection

Commentary
NWP is an important metric for RSA, in particular, ensuring an appropriate growth rate that matches the footprint of the Group and its capacity for growth. Growth rates in our core markets would typically be in the low to mid single-digit range, whilst we would expect to see higher growth in our emerging markets businesses.

Performance (£bn)
2009 6.7 (4% reported growth)
2010 7.5 (11% reported growth)
2011 8.1 (9% reported growth)
2012 8.4 (3% reported growth)
2013 8.7 (4% reported growth)

2 TANGIBLE NET ASSET VALUE (TNAV)

Definition
Total shareholders' funds, excluding goodwill, intangibles, and preference share capital

Commentary
Insurance companies manage a number of different capital metrics. These metrics have a common theme, which is that they all benefit from growing levels of TNAV. It is also important because TNAV represents the underlying value of our business.

Performance (£bn)
2009 2.4
2010 2.4
2011 2.3
2012 2.1
2013 1.7

3 TNAV:NWP

Definition
The ratio of TNAV to NWP

Commentary
An important metric that is widely used by investors and other stakeholders in the insurance industry to compare companies within the sector. When used as a relative metric against peers, it provides an indication of relative capital strength, but should be judged in the context of the diversification and geographical spread of the business. It underpins all of the capital metrics (IGD, ICA, ECA, rating agency) of the Group.

Performance (%)
2009 36
2010 33
2011 28
2012 26
2013 19

Note:
Where relevant, KPI data shown here has been restated for changes to IAS19 'Employee Benefits'.

4 COMBINED OPERATING RATIO (COR)

Definition
The ratio of underwriting profit expressed in relation to premiums

Commentary
An important ratio used across the insurance industry that measures underwriting profit as a proportion of revenue. It is often used as a relative measure of underwriting efficiency when comparing against peers. The aim is to keep this ratio as low as possible without compromising the quality of reserves or becoming uncompetitive on price.

Performance (%)

	COR	Loss ratio	Total expense ratio
2009	94.4	64.9	29.5
2010	96.4	68.0	28.4
2011	95.2	66.4	28.8
2012	95.6	66.0	29.6
2013	99.6	69.5	30.1

5 PROFIT AFTER TAX (PAT)

Definition
Profits generated from underwriting insurance business, plus the return from investments, less items such as central overheads, interest expense, amortisation and tax

Commentary
Healthy and growing levels of profit are important as they pay dividends and, when retained in the business, drive growth in TNAV and improve capital metrics.

Performance (£m)
2009 449
2010 340
2011 407
2012 327
2013 (338) loss

6 UNDERLYING RETURN ON TANGIBLE EQUITY (ROTE)

Definition
Profit after tax attributable to ordinary shareholders adjusted for reorganisation costs, transaction costs and net gains, in relation to opening tangible shareholders' funds (i.e. excluding goodwill and intangible assets)

Commentary
A key measure of shareholder value. Can also be expressed as underlying return on tangible equity which excludes acquisitions and disposals costs, reorganisation costs and investment gains or losses.

Performance (%)
2009 16.2
2010 11.9
2011 12.1
2012 13.9
2013 (5.5)

7 CAPITAL STRENGTH

Definition
Insurance Groups Directive (IGD or 'Solvency I') and Economic Capital

Commentary
Whilst there are several ways of measuring capital strength, the headline focus falls on Solvency I (IGD), one of two key measures stipulated by our lead regulator, the PRA, as well as our own internal economic capital assessment model (ECA) which assesses the likely capital requirements of the Group in an extreme stressed scenario.

Performance (£bn)

	IGD surplus	ECA surplus
2009	1.7	1.8
2010	1.5	1.1
2011	1.3	0.8
2012	1.2	0.7
2013	0.2	0.7

8 CUSTOMER

Definition
We use key measures such as net promoter score (NPS) – a measure of the number of customers who would recommend our products less the number of customers who would not recommend them

Commentary
We aim to put customers at the heart of everything we do and delivering for our customers is an important part of our strategy. Measures such as NPS are important in helping us keep on track to deliver on this commitment.

Performance
- Retention rates consistently around 80%
- Strong net promoter scores across the business
- Approximately 19m customers across the world

Note: historical data not available

9 GREENHOUSE GAS EMISSIONS

Definition
Net tonnes of carbon emissions (CO_2) per £m of net written premiums (NWP)

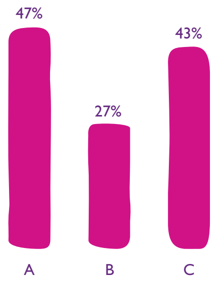
Commentary
We understand the importance of reducing our own environmental impact. Our operations in the UK, Ireland and Group Corporate Centre are carbon neutral, offsetting their equivalent emissions in renewable-energy projects in China, India and South America which are certified to the Voluntary Carbon Standard.

Performance (net tonnes CO_2 per £m of NWP)
2009 4.7
2010 4.5
2011 4.3
2012 4.0
2013 4.1

OUR PEOPLE

MOTIVATED, ENGAGED AND SKILLED EMPLOYEES ARE CRITICAL TO OUR LONG-TERM SUCCESS.

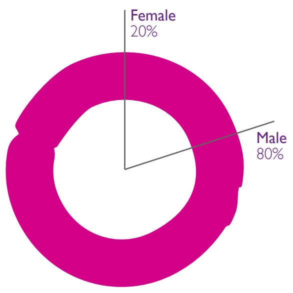
FEMALE REPRESENTATION ON DEVELOPMENT PROGRAMMES



KEY

- A Executive Development Programme
- B Senior Talent Acceleration Programme
- C Fast Track Programme

FEMALE REPRESENTATION ON THE GROUP BOARD



FOSTERING DIVERSITY AND INCLUSION

The Group's commitment and desire is to always appoint the best person for the job.

We are committed to the promotion of equal opportunities for all employees, creating a working environment that supports diversity and inclusion. We seek to ensure that recruitment, talent selection, development, reward, performance management and internal promotion are all carried out solely on the grounds of ability, and are entirely free from any form of discrimination. We are committed, wherever possible, to employing and developing people who are disabled, or become disabled, during their career with the Group.

In order to reflect the needs of our customers, facilitate innovation and collaboration, and ensure we have the capabilities we need for the future, we believe that fostering a diverse workforce and inclusive culture are central to our long-term success. In 2013, we initiated a global Diversity and Inclusion Programme, with a number of workstreams to further develop the diversity of our workforce.

The gender breakdown for the Group at 31 December 2013 was:

	Total	Female	Male
Group Board of Directors	10	2	8
Group Executive Committee	12	2	10
Top 100	87	20	67
Senior Management Group	926	259	667
Group Overall	23,330	12,132	11,198

Our key area of focus is to strengthen our pipeline of female employees in senior leadership positions. We have a number of initiatives under way, including a global female sponsorship programme, female networking events and mentoring programmes. Enhanced flexible working opportunities have been introduced, along with a new global recruitment policy and increased intake of females on our global talent programmes. In 2013, we entered into a partnership with Mumsnet, a UK social networking site for parents and carers, and RSA is a member of its Family Friendly Employer scheme.

DEVELOPING A HIGH PERFORMANCE CULTURE

We believe we can create competitive advantage by building and maintaining a culture where high performance is recognised and rewarded, and appropriate actions are taken to address underperformance.

This focus is underpinned by robust performance management processes to ensure a rounded assessment of employee performance. All employees are set clear annual goals built around three key areas of people, customer and outperformance. Alongside these goals we also set clear Group-wide expectations of employee behaviour. In 2013, our employee behaviours were revised to reflect the Group's increased customer focus. All employees have twice yearly performance reviews and ratings, which are formally validated against peers to ensure consistency.

As well as assessing current performance we have a rigorous process to support personal development, evaluate future potential and ensure a strong and robust talent pipeline. The Executive Team actively manage senior succession plans, and annual talent and succession reviews are completed across all of the Group's businesses and functions. To further strengthen our approach, in 2013 we initiated a partnership with leading consultancy YSC and implemented a new potential model. This model enables us to identify and externally benchmark our highest potential talent and get focused insight to tailor appropriate development interventions.

To support this, in 2013, we refreshed our leadership development programmes, a number of which were already externally recognised and award winning. The Group now has programmes in place at all levels to develop its future leaders and realise the potential of its talented people.

- The Executive Development Programme (EDP) – focuses on increasing the leadership capabilities of senior employees regarded as having the potential to be amongst the future top leadership of the Group.
- The Senior Talent Acceleration Programme – a new programme designed specifically for high-potential leaders who could step up to leading a function.
- The Fast Track Programme – for emerging talent, and is styled on a 'Mini-MBA'.
- In line with our diversity strategy, we aspire to have equal numbers of male and female employees on these programmes. In 2013 the representation of females was 47% on the Executive Development Programme, up from 18% in 2012, 27% on the new Senior Talent Acceleration Programme and 43% on the Fast Track Programme.
- As well as our talent programmes we have built Academies and Centres of Excellence to support the development of specialist and technical expertise. There are Centres of Excellence for Marketing and eBusiness as well as the long established Technical Academy.

CREATING AN ENGAGED AND MOTIVATED WORKFORCE

In 2013, the Group continued to partner with leading engagement specialist Gallup, using their Q12 survey methodology. The Q12 survey is completed by around three million people globally every year and measures the key drivers of employee engagement. The Group runs its engagement survey annually and it is open to all employees, with 92% of employees participating in the survey in 2013.

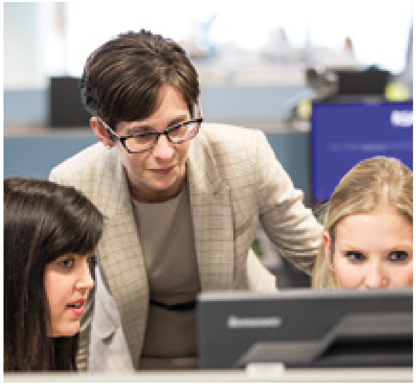
The results of the 2013 engagement survey placed RSA in the top 5% of global organisations with 1,000 or more employees. In 2013, the Group also won a range of awards recognising it as a great place to work. These included the Gallup Global Workplace Award, presented annually to the world's most engaged and productive organisations and being placed in the Top 10 of the UK's Sunday Times Best Big Companies to Work For, for the second consecutive year.

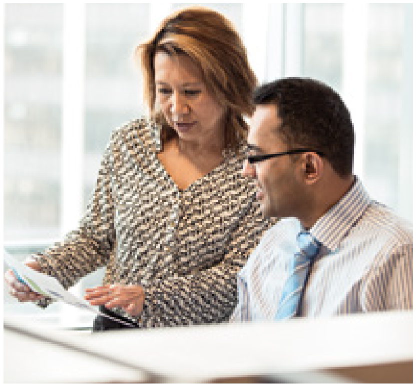
RSA has a long-standing philosophy of encouraging employee share ownership, operating two HMRC-recognised share schemes: Sharebuild and Sharesave. Details of the Executive Directors' interests in Sharesave and Sharebuild are noted on page 87. The current participation in the two schemes is as follows:

	Total Employees Participating	Average Monthly Contribution	
		3 Year Plan	5 Year Plan
Sharesave	5,635	£73.38	£60.73
Sharebuild (UK Only)	2,389	£77.26	–

EMPLOYEE RELATIONS

Across the Group we place a major emphasis on informing and involving employees with clear and regular communication around our strategy, and all changes that affect our people. We have established channels to support collaboration and the sharing of best practice such as our intranets and our 'Share' e-newsletter. There are also regular webexes with senior leaders as well as business and functional conferences.





The Group is also committed to fostering a constructive relationship with recognised independent trade unions, ensuring a regular and open dialogue on business issues and early consultation on changes affecting the workforce. In the UK, Unite is formally recognised through a partnership agreement which covers collective consultation and bargaining on behalf of non-management employees. The Management Association (TMA) represents managerial employees under a separate consultative agreement. In Scandinavia, the Group has formal meeting forums with the national unions in Denmark, Sweden and Norway, respectively, where the Group informs and negotiates changes affecting the workforce. Within the Group's CNS operation in British Columbia, Canada, there is a collective bargaining agreement with the Canadian Office and Professional Employees Union. The European Works Council (EWC) is a cross European body that meets annually and was created to enable information sharing and consultation on transnational issues affecting our European workforce.

CORPORATE RESPONSIBILITY

WE MANAGE OUR BUSINESS RESPONSIBLY AND AIM TO HAVE A POSITIVE IMPACT ON OUR CUSTOMERS AND SOCIETY.

STRATEGY

As the world's population continues to grow, demand for housing, food, clean water and energy will put considerable strain on finite natural resources. Meanwhile, continuing changes to our climate will add to the risks people face in going about their daily lives.

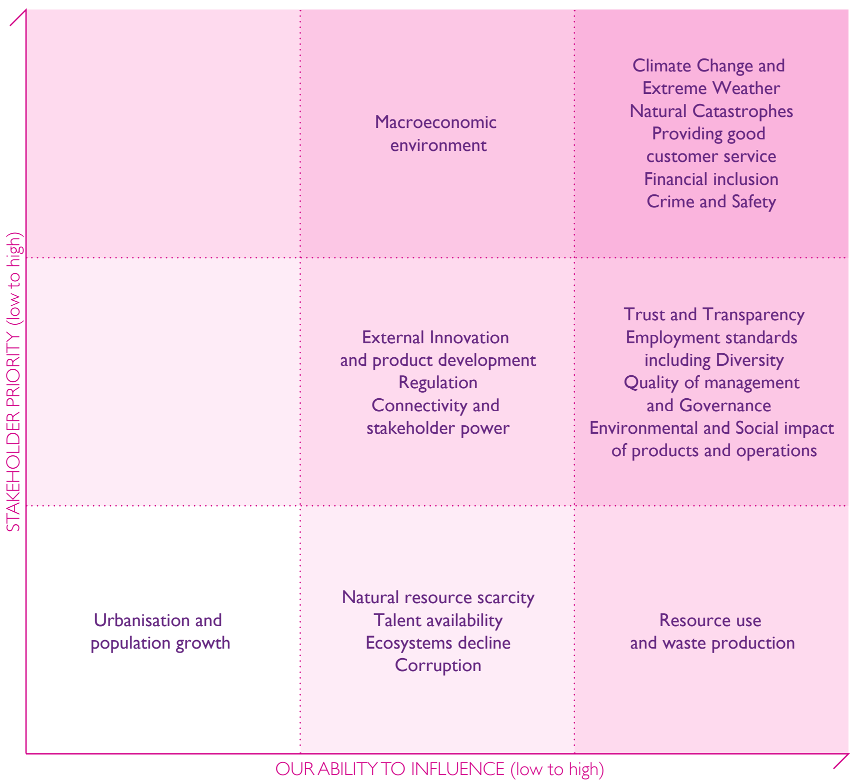
At RSA we view corporate responsibility (CR) as an opportunity to help address these challenges. We believe that by working together we can make a difference to our staff, customers and the communities in which we operate.

We have a track record we are proud of. In 2013, we retained platinum status in the Business in the Community CR Index, ranked 'Prime' by Oekom and were listed in the FTSE4Good Index.

2013 saw us develop and implement an exciting new five year (2014–18) CR strategy with targets covering three themes: Safe, Secure World; Thriving Communities; and Sustainable Future. The strategy is based on extensive internal and external stakeholder engagement and analysis of material issues – the results are outlined in the matrix on the right.

To support the delivery of our goals, we have established a CR Steering Committee, made up of senior leaders. Each of the themes are led by a member of the Executive Committee.

OUR MATERIALITY MATRIX



SAFE, SECURE WORLD

ISSUE

Our products and services provide everyday protection for our customers' families, pets, homes, cars, businesses and possessions. They help make our communities safer places to live, work and travel.

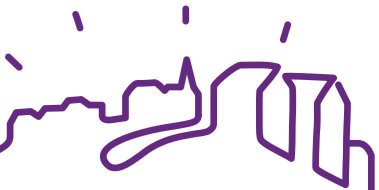
Motor insurance is a significant part of our business and that means we have a clear interest in making driving safer. It is a tragedy that more than a million people every year are killed on roads and a further 50 million are injured. Road accidents are the world's leading cause of death for young people and the World Health Organization believes they will be the third-largest burden on global health by 2020. The emotional, economic and social cost is substantial, with most countries losing 1–3% of their Gross National Product as a direct result.

RESPONSE

We want to make roads safer for everyone. This year we ran 11 road safety campaigns across the Group. These targeted locally relevant issues, so for example, in Scandinavia we focused on night-time visibility for vulnerable road users and in Latvia we worked with our fleet customers on safer driving. Other countries chose the safety issues most relevant to their customers.

Road safety is something the whole Group unites behind but we continue to work on other prevention and safety issues too, including our ongoing water safety programmes in Sweden through our Trygg Hansa brand.

THRIVING COMMUNITIES



ISSUE

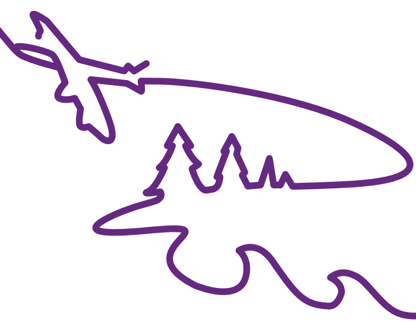
Our customers and our business thrive when they are part of healthy, prosperous communities and we believe there are twin challenges in bringing down youth unemployment around the world – which stands at nearly 73 million – and in fostering entrepreneurship that supports economic growth. That is why we empower our people to champion these issues and the causes which are close to their hearts and can have the most impact in the places they live and work.

RESPONSE

Our new approach will support communities by targeting two specific areas: Education and Employability; and Enterprise and Entrepreneurship. We will be asking our people to use their knowledge and skills to help raise the achievements and aspirations of young people and to champion the next generation of entrepreneurs.

In addition to the two areas of focus, we want to encourage our people to support issues close to their hearts. RSA has a workforce that is passionate about making a difference to local charities and we encourage them to support the causes they care about by providing matched funding and time off for volunteering. In 2013, RSA made £1.86 million (2012: £1.6 million) of charitable corporate donations.

SUSTAINABLE FUTURE



ISSUE

Globally, we have seen substantially more weather-related catastrophes in the last five years than in the previous thirty. These have also been increasingly costly in terms of insured and uninsured losses. We need to be prepared for this trend to continue in the future.

We understand the impact adverse weather can have on our customers, from flooding to extreme cold and periods of drought. We have an important role to play in helping people manage the associated risks. We also have a responsibility to limit the environmental impact of our own activities.

RESPONSE

Our ambition is to be counted among the world's most environmentally sustainable businesses. Over the next five years we will establish a network of sustainability champions who will be trained, empowered and challenged to find ways to reduce energy and resource use in our direct and indirect activities. This network will also investigate solutions that help our customers respond to the challenges presented by environmental change. Work to initiate this network began in late 2013 with Global Action Plan, an award-winning environmental change charity, and with our sustainability partners, WWF. In the UK, for the third consecutive time, we have achieved the Carbon Trust Standard.

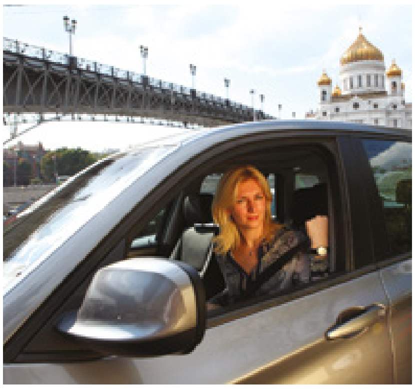
SAFE, SECURE WORLD

ACTION

In Denmark, Codan developed its programme with the Children's Accident Foundation, a charity it set up with a local children's hospital five years ago. This year it distributed 70,000 free reflectors and held night-time 'Reflectors Races' with over 500 participants. In Sweden, Trygg-Hansa handed out 85,000 reflective slap wraps used on wrists and ankles at more than 100 schools, with people able to request more free reflectors via our website, while 450,000 existing customers received an e-newsletter with more information about the day. Meanwhile in Norway, Codan volunteers handed out 30,000 reflectors. This year more than 300 RSA people volunteered to help make the events a success. All the National Reflectors Days boosted their impact with lots of social media activity on websites, Facebook and Twitter.

In Russia, INTOUCH's Responsible Driving Movement created a community which united responsible drivers who believe in safe roads. In Moscow, billboards with safety warnings were put up on five streets known to be particularly dangerous and seen by at least 274,000 drivers. The 'Manifesto of the Movement' was signed by partner organisations, volunteers and members of the press and all 200 INTOUCH staff played their part in the internal launch. Meanwhile road safety messages were taken to a number of Moscow schools as part of an ongoing programme of visits. The Movement has its own website and Facebook page with more than 30,000 unique users per month.

To meet our targets, we will be organising more road safety campaigns across the Group and extending their reach and impact. We will continue to address the issues most material to the countries we operate in, working with partner organisations to deliver our vision of creating safer roads for everybody.



245,000+

HIGH VISIBILITY EQUIPMENT HANDED OUT ACROSS THE GROUP

274,000

DRIVERS REACHED WITH INTOUCH'S RESPONSIBLE DRIVING CAMPAIGN

£1.86m

CORPORATE DONATIONS

THRIVING COMMUNITIES

ACTION

Flash floods in Alberta, Canada in the summer of 2013 caused widespread devastation, cutting off vital supplies and submerging thousands of homes and businesses. Our priority was to ensure our customers were receiving the support and service they needed, with our claims teams out in full force to help people get their lives and businesses back on track as quickly as possible. To support the relief efforts further, a corporate donation of $100,000 was made to the Canadian Red Cross. We also matched donations made by employees across the country, while a group of employees spent two days volunteering in High River, one of the hardest-hit regions in the province. In November, the Canadian Red Cross recognised RSA Canada for its contribution to the largest emergency response deployment in the country's history.

In the UK, we launched a new partnership with the Dame Kelly Holmes Legacy Trust* (DKHLT), a charity which helps disadvantaged young people build their confidence and employability skills. Our three-year funding, and access to our online training resources, supports their 'Give Back Team', a network of athletes who act as positive role models for young people. We are also supporting the School for Social Entrepreneurs, sponsoring seven entrepreneurs through their action-learning programme and providing each with a mentor from RSA. As Tara Kneafsey, Commercial Director of SME, said: "This partnership fits perfectly with RSA. It reflects our heritage as a business founded to meet a social need. It's also about our future as we are targeting growth with SMEs. This gives us an opportunity to gain some real insight into a sector that's growing fast, with social enterprises being set up at twice the rate of traditional small firms."

In 2014, we will continue to make a positive impact in our communities through our strategic themes of Education and Employability, and Enterprise and Entrepreneurship. We will also carry on empowering our people to tackle the issues close to their hearts.

* Adrian Brown, RSA UK and Europe CEO, is a trustee of DKHLT

SUSTAINABLE FUTURE

ACTION

RSA has partnered with WWF-Canada since 2009, funding critical marine conservation activities and working to understand better the impact of a changing climate on our oceans. Expert ecological and environmental insight gained through this partnership helped RSA to underwrite a historic journey made by the Nordic Orion, a 225-metre, ice-strengthened vessel, when it sailed from Vancouver, Canada to Pori, Finland in September 2013. Rather than travelling through the Panama Canal, as would usually be the case, the voyage went through the Northwest Passage, becoming the first commercial bulk carrier to do so. The benefits were significant, with 1,000 nautical miles taken off the route-cutting USD$80,000 in fuel consumption and reducing the journey time by five days. The ship was also able to take 25% more cargo than if it had gone through the shallower Panama Canal. Providing expert advice on ecologically sensitive ares is one way in which RSA, as a leading marine insurer, is committed to promoting the adoption of best environmental practices within the worldwide shipping industry. RSA is a member of the Sustainable Shipping Initiative (SSI), an alliance of global companies and non-governmental organisations (NGOs) founded by the Forum for the Future.

To celebrate our 300th birthday, in 2011 RSA ran an 'Arctic Challenge' to raise awareness of the impact of global warming. The idea that won the 'Bright Green Ideas Challenge' enables employees to save costs and help protect the environment by leasing environmentally sustainable, low CO_2 cars, insured by RSA, through our staff benefits programme. In 2013, this idea came to life in the UK as 'Green Drive' and already 100 of our people are taking advantage of it. The winning team went on a trip to the Arctic to experience for themselves the impacts of climate change and see why it is important they help reduce their own and RSA's carbon footprint.

GREENHOUSE GAS EMISSIONS FOR RSA INSURANCE GROUP (TONNES OF CO_2e^*)

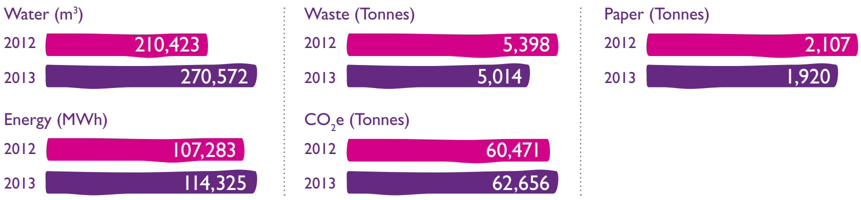
	2013	2012
Scope 1	12,968	13,262
Scope 2	25,787	27,263
Scope 3	23,901	19,946
Total gross	62,656	60,471
Gross tonnes CO_2 per £m NWP	7.2	7.2
Carbon offsets (UK and Ireland)	27,278	27,124
Total net emissions	35,378	33,347
Net tonnes CO_2 per £m NWP	4.1	4.0

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

GEOGRAPHICAL BREAKDOWN OF GREENHOUSE GAS EMISSIONS FOR 2013 (TONNES OF CO_2e^*)

	Scope 1	Scope 2	Scope 3
UK and Western Europe	7,276	13,171	8,330
Canada	1,213	3,459	5,570
Scandinavia	937	2,544	4,130
Emerging Markets	3,542	6,613	5,871

This assessment has been carried out in accordance with the World Business Council for Sustainable Development and World Resources Institute's (WBCSD/WRI) Greenhouse Gas Protocol; a Corporate Accounting and Reporting Standard, together with the latest emission factors from recognised public sources including, but not limited to, Defra, the International Energy Agency, the US Energy Information Association, the US Environmental Protection Agency and the Intergovernmental panel on Climate Change.



RESPONSIBLE BUSINESS

Our CR programme is underpinned by a robust internal governance structure and policy framework. Ultimate responsibility rests with our Group Chief Executive and our CR Committee ensures accountability and delivery across business lines. Our key non-financial data is assured annually by external auditors.

Our CR policies form part of our operational risk framework, with compliance reviewed by the Group Executive Committee and Group Board.

HUMAN RIGHTS

RSA policy requires compliance with corporate best practice which encourages underwriters to consider human rights implications. Our high risk country referral guide forms part of our Underwriting Policy. Countries are graded against their risk using a number of criteria, including operational risk, socio-political environment (including human rights) and including sanctions applied by UK HM Treasury.

OUR SUPPLY CHAIN

We work closely with our business partners and intermediaries to reduce our collective environmental impacts and manage social issues in our supply chain.

RESPONSIBLE INVESTMENTS

During 2013 the majority of our UK equity assets were managed by F&C Asset Management. F&C follows a policy of active engagement on environmental, social and governance issues. Last year, F&C engaged with 17 companies on a wide range of issues from climate change to labour standards across our portfolios.

In 2012, we began working with our investments teams and WWF to understand how environmental, social and corporate governance issues are, or can be, integrated into fixed income investment pricing and assessment. This work continued in 2013.

RISK MANAGEMENT

THE FUTURE SUCCESS OF THE GROUP IS UNDERPINNED BY OUR CONSERVATIVE RISK PROFILE AND CLEAR RISK APPETITE.

RISK MANAGEMENT APPROACH

We take a broad view of the scope of risk management which is taken to include the risk of underperformance as well as adverse events and the failure of processes. This approach is reflected in our risk appetite statement and key risk indicators which cover all aspects of our strategic objectives. The risk appetite statement is updated annually in line with the strategic review. Our risk management system is defined in a comprehensive suite of risk management policies, supported by detailed procedures. A central task of the risk management function is to monitor adherence to these policies and procedures.

The Board is closely involved in risk management via the Board Risk Committee which meets quarterly. The quarterly risk reports monitor the status of all risks and will form an integral part of our ORSA process.

Principles

Simple objectives
- Create value for all stakeholders
- Focus on general insurance in our selected markets
- Commitment to sustainable, profitable performance.

Clear risk appetite
- Underwriting and operating excellence
- Strong control environment
- Tight financial management
- Protecting and managing the Group's reputation.

Robust governance, control and reporting
- Comprehensive policies, procedures and controls
- Clear delegation of authorities
- Robust lines of defence
- Regular and relevant reporting and assurance processes.

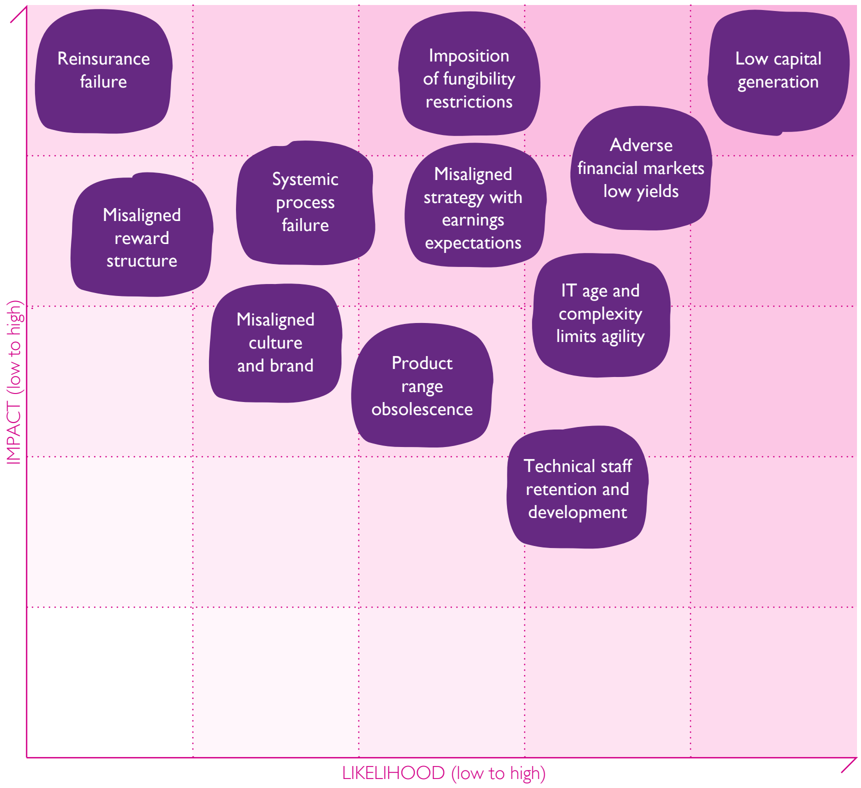
Strong culture
- Board set 'tone from the top' of open communication and engagement
- Putting the customer at the centre of what we do
- High quality and engaged staff.

OUR RISK MANAGEMENT IN PRACTICE

Rigorous review of RSA's planning process:
The Group and regional Risk functions subjected the Operational Planning process to significant independent challenge, especially given the Group's reduced capital strength and the importance of aligning strategic decisions with appropriate earnings expectations. This involved early and continual engagement, objective analysis (both top-down and portfolio level bottom-up), trend and peer comparisons, and cross-checking with other risk inputs. The result is increased confidence given to the Board in the robustness of the revised Plans.

Monitoring capital:
The Risk function and Board Risk Committee devoted significant time to capital during 2013, developing and approving an enhanced risk appetite to set out more consistently and explicitly the target range and buffers for each principal capital measure. This was calibrated against standard stress tests, reputational risk assessment and model risks. The Committee oversaw a reduction in risk appetite during the year to reflect the reducing capital buffers: equity exposures were reduced, additional reinsurance protection was purchased, M&A activity was halted and capital action plans were launched.

STRATEGIC RISK PROFILE



Our strategic risk profile is our forward-looking assessment of the principal risks to delivering our strategy. Towards the end of 2013 we launched our business review, and we are adjusting our strategy; as a result, as in any time of change, a key risk for us to manage is the alignment of our strategy, execution and impact on financial performance with the expectations of our shareholders. As part of the management of this risk, the Risk function conducted an independent, end-to-end challenge of our business planning process which supports its robustness and our confidence in the future.

The interrelated risks of adverse financial markets (including low yields) and low capital generation remained the greatest strategic risks during 2013. We have enhanced our capital risk appetite and capital strategy as the basis for ranking the options for improving capital strength and returns. In addition, we made targeted reductions in our risk appetite and risk profile during 2013.

There is evidence that regulators may, in the light of the introduction of Solvency II, seek to enforce greater restrictions on the fungibility of capital, in other words, whether the capital we hold across our businesses is accessible to support the risk profile over appropriate time-frames. As an internationally diversified group, we continue to monitor this risk carefully in dialogue with our regulators, and to manage the internal capital flows between our entities effectively.

Risk	Description and impact	How we manage	Change in likelihood in year
Low capital generation	Insufficient capital generation over medium-term to support dividend and corporate activity	• Accelerated delivery of UK strategy • Delivery of other regions' operational plans • M&A moratorium and additional reinsurance protection • ALM and cashflow risk management • Capital strategy project to rank options	↑
Adverse financial markets	Impact of negative long-term macro-economic trends, financial market volatility and/or persistently adverse yield environment	• Geographic diversification • High quality, low risk investment strategy and portfolio • Tactical actions to mitigate reduction in yields • Defensive positioning to Eurozone	↔
Imposition of fungibility restrictions	Limited fungibility of capital following tighter regulatory measures	• Rigorous legal entity solvency management • Internal dividend policy • Regulatory dialogue	↑
IT age and complexity limits agility	IT stability or agility limitations impair service levels or delivery of strategic change due to cost and management capacity. Constraints include risk of disruption, age and complexity of legacy estate and competing priorities	• IT Change stack oversight to track delivery of project and benefits • Development and funding of dedicated e-business capability • New Group CIO with remit to develop long-term strategic approach • IT Risk framework developed to improve oversight and governance	↔
Misaligned strategy and earnings expectations	Failure to align strategy, execution and financial performance with shareholder expectations	• Robust strategic and operational planning processes • Delivery of operational plans • Robust management of underperforming businesses • Management of corporate governance requirements • Investor and media relations	↑
Systemic process failure	Systemic failure in pricing, underwriting and claims processes	• Granular MI on rating and claims trends • Underwriting strategy statements, licence and controls • Refined portfolio classification and pricing tools • Quarterly Business Reviews and BRC governance • Accumulation management and large loss review actions	↔
Technical staff retention and development	Failure to attract and retain key staff for specialist technical roles	• Talent boards and Engagement programme • Review of remuneration system • Robust succession planning	↑
Product range obsolescence	Failure to develop and distribute appropriate and/or innovative products to existing/new customers and new channels	• Group Architecture and IS Strategy • E-enablement initiatives • Customer Engagement programme	↔
Reinsurance failure	Failure of reinsurance programme to deliver planned benefits through e.g. counterparty failure, operational error or failed recovery processes	• Board, Exco and BRC governance • Reinsurance recovery processes • Group-wide reinsurance placement management • Reinsurance Security controls and processes	↔
Misaligned culture and brand	Failure to create a culture and brand that supports Group strategy and will attract and retain diverse individuals in an environment that can harness their unique contributions	• Develop articulation of desired culture • Design indicators to assess cultural risks and enable audit • Global Diversity and Inclusion (D&I) programme underway • People and Leader Expectations in development for Brand refresh	↑
Misaligned reward structure	Failure of reward systems to align with corporate aspirations and external stakeholder expectations	• Remuneration committee governance • Review of remuneration system • Investor and media relations	↓

EMERGING RISKS AND GROUP STRATEGY

We keep emerging risks under regular review and assess their impact on our strategy. During 2013, we identified the following clusters of emerging risk and incorporated them as key drivers into our group strategy process.

1 Globalisation and economic rebalancing	• Rise of China/India/new market leaders and capital flows and international trade to fuel their growth • Next billion consumers emerging in emerging markets as they build their middle class • Risk of developed markets stagnating or declining (e.g. caused by Eurozone break up) • US resurgence and path to energy independence (e.g. driven by fracking) • China hard landing or soft landing
2 New global security threats	• Financial volatility caused by increasingly interconnected worlds, too-big-to-fail industries and increasing competition for resources • Political volatility including terrorist threats, Middle East conflict and the 'Arab Spring' spreading to other emerging markets • Social volatility caused by high youth unemployment, gender imbalance in the developing world, etc. • Increase in environmental disasters (e.g. droughts, hurricanes, etc.)
3 The digital society	• Pricing transparency by aggregators spreading to other producers • Expansion of e-commerce competitors into all areas of commerce • Increased availability of consumer data: Human genome project, Telematics, etc • Social media and increased use of mobile smart devices fuelling access to instant information • Rise of radio-frequency identification (RFID) and sensor networks enabling tracking, data gathering, etc.
4 Changing social contract between business/ government	• Greater need for sales/price transparency • Limitation of product pricing (e.g. review of gender biased pricing in the EU) and banning of high cost products • Emerging markets regulation converging to western norms • Continued uncertainty around Solvency II/Prudential regulation • Increased backlash against business driven by compensation culture and tax avoidance scandals
5 Environmental change and responses to it	• Environmental risks including extreme weather events and consequent higher attritional losses • Adverse government intervention in response (e.g. mandatory flood insurance at below cost prices) • Government prevention responses (e.g. renewable investment, carbon tax, etc.) • Energy and water scarcity prompting alternative energy sources, substitute materials and sustainable forms of transportation (e.g. fuel cell, hybrid, electric, rail)
6 Social change, fragmentation and polarisation	• Ageing population in need for more health and pension related insurance products • Increased ethnic diversity → further segmentation; Polar lifestyles, obesity vs fitness → better targeting • Shifts in 'mindset' of workers 'Contentment vs striving' • Outsourcing/off-shoring developments in light of productivity/performance focus • R&D/innovation imperative driving war for talent requiring new organisational structures

DISTRIBUTION OF QUANTIFIABLE RISKS

Our internal model provides a quantification of the total amount of risk borne by the Group, expressed as the amount of capital required to enable it to meet all liabilities to a confidence level consistent with the Group's target 'A' rating.

By analysing the cashflows in our model, we can assess the extent to which the overall level of risk is attributable to broad categories of risk.

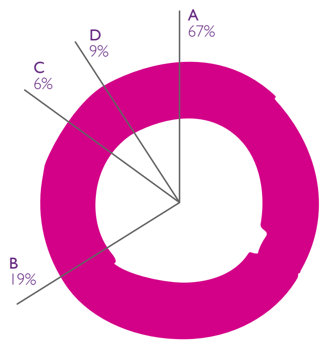
Consistent with our strategy and appetite, the majority of the Group's risks relate to insurance, comprising higher than anticipated underwriting losses, net catastrophe losses and reserve deterioration.

Our conservative investment strategy means that investment risk forms a relatively small proportion of our overall risk compared with the industry.

Within our defined-benefit pension schemes we have progressively reduced risk over a number of years through a succession of significant de-risking actions; however, due to the large size of the schemes relative to the business, they still present a material exposure, currently exacerbated by the economic environment producing a prolonged period of low real-yields.

ECONOMIC CAPITAL BY TYPE OF RISK

A Insurance Risk
B Investment Risk
C Operational Risk
D Pension Risk



FINANCIAL REVIEW

RICHARD HOUGHTON
Group Chief Financial Officer

THE GROUP FACED A VERY CHALLENGING YEAR IN 2013. DESPITE THIS, THE UNDERLYING PERFORMANCE OF THE BUSINESSES REMAINS ENCOURAGING.

RESULTS OVERVIEW

2013 was an extremely disappointing year for the Group. The loss after tax of £338m (2012: £327m profit) reflected the impact of the issues we faced in Ireland during the year, adverse weather across Scandinavia, Canada and the UK, as well as write downs of software intangible assets and goodwill. Despite this, there have been some good underlying performances, and on a normalised[1] basis the result was a post-tax profit of £304m. In December, following a detailed review of the capital position of the Group, the Board agreed that a full review of the business should be undertaken. The progress of this review, which was announced together with the Group's preliminary results on 27 February 2014, has enabled us to strengthen our capital position, and begin focusing the Group for 2014 and beyond.

NET WRITTEN PREMIUMS

Net written premiums were up 3% at constant exchange to £8.7bn (up 4% as reported). Continued good growth in Canada and Emerging Markets, up 11% and 16% respectively, was offset by the UK and Western Europe which was down 4%, whilst Scandinavia was flat. Across the Group, rate on renewals added three points of growth whilst volumes down two points following

FINANCIAL HIGHLIGHTS (MANAGEMENT BASIS)

£m	2013	2012	2011	2010	2009
Net written premiums	**8,664**	8,353	8,138	7,455	6,737
Underwriting result	**57**	358	363	240	398
Investment result	**333**	431	485	475	533
Insurance result	**390**	789	848	715	931
Other operating activities	**(104)**	(122)	(133)	(140)	(132)
Operating result	**286**	667	715	575	799
Other items	**(530)**	(219)	(129)	(121)	(204)
Profit/(Loss) before tax	**(244)**	448	586	454	595
Tax	**(94)**	(121)	(179)	(114)	(146)
Profit/(Loss) after tax	**(338)**	327	407	340	449
Combined operating ratio (%)	**99.6**	95.6	95.2	96.4	94.4
Shareholders' funds (£m)	**2,893**	3,750	3,801	3,766	3,491

In 2013 the Group restated its financial statements for changes to IAS 19 Employee Benefits.
All years shown above have been restated on this basis.

1 The normalised performance for 2013 includes the following non-recurring adjustments: £52m for the normalisation of the weather loss ratio to a long-term average of 2.9% (2009–13); £200m in respect of the financial irregularities and reserve strengthening in Ireland; £63m in respect of the change of discount rate in the UK from 5% to 4%; reorganisation costs of £356m mainly reflecting goodwill impairments in Poland and Argentina, together with the write down of certain IT software assets mainly in the UK.

targeted reductions in Scandinavia and the UK and Western Europe. Our 2012 acquisitions in Argentina and Canada added two points of growth. Foreign exchange accounted for one point of growth on a reported basis.

OPERATING RESULT

The operating profit of £286m (2012: £667m) reflected the significant weather losses seen across Canada, Scandinavia and the UK; the financial impact of the irregularities identified in the Irish claims and finance functions; reserve strengthening in Ireland and the UK; and lower levels of investment income. The normalised[1] operating profit was £601m.

Underwriting result

The underwriting result was a profit of £57m (2012: £358m) with a current year profit of £12m (2012: £167m) and a prior year profit of £45m (2012: £191m). The combined ratio of 99.6% was four points higher than 2012 (95.6%).

The loss ratio (a measure of the value of claims as a proportion of premiums) was 69.5% (2012: 66.0%). The underlying loss ratio (excluding large losses, weather losses and prior year development) was 59.9% (2012: 59.5%) and large losses were in line with expectations at 7.1% (2012: 7.0%). However, weather losses of 3.5% (2012: 2.2%) were heavily impacted by events across Canada, Scandinavia and the UK, whilst prior year development of 1.0% (2012: 2.7%) was lower due to the reserve strengthening in Ireland and margin additions in the UK.

The commission ratio of 14.5% was 0.7 points higher than last year due to ongoing shifts in business mix as affinity growth continues to outpace growth in direct channels in certain regions. The expense ratio of 15.6% is 0.2 points lower than 2012 (15.8%).

Scandinavian underwriting profit was £225m (2012: £237m) with good levels of current and prior year profits despite the impact of two severe windstorms during the fourth quarter. Canada made an underwriting profit of £10m (2012: £101m) despite record adverse weather losses, including severe flooding in Alberta in June, and in Toronto in July, together with a severe ice storm in Eastern Canada and Toronto in December. In the UK and Western Europe region, the UK underwriting profit of £36m is driven by a good performance across our Property and Household books, an improved result in Commercial Motor which was offset by underwriting losses in Liability and Personal Motor as a result of challenging market conditions. In Ireland, the underwriting loss was £220m reflecting reserve strengthening and the impact of the irregularities within the Irish claims and finance functions. Italy made an underwriting loss of £1m (2012: loss of £50m) with the improvement driven by the remedial actions we have taken. Emerging Markets underwriting profit of £46m is up 39% (2012: £33m) with good performances across all three regions.

The prior year underwriting profit of £45m reflects positive prior year development across Scandinavia, Canada and Emerging Markets, partly offset by strengthening at an overall UK and Western Europe level. In terms of accident year, 2012 is unchanged with positive development in Canada, Italy, UK Commercial Motor and Scandinavia offset by strengthening in Ireland and UK Liability. The earlier years produced net positive run off of £61m despite deterioration in the 2009 and 2010 years which was impacted by the reserve strengthening in Ireland.

Investment result

The investment result was £333m and comprised investment income of £493m, offset by the discount unwind of £160m.

Investment income of £493m was slightly ahead of expectations but down 4% on prior year (2012: £515m), reflecting the continued low bond yield environment. The average yield on the total portfolio was 3.5% (2012: 3.6%), with average yield on the bond portfolios of 3.4% (2012: 3.5%).

Reinvestment rates in the Group's bond portfolios at 31 December 2013 were approximately 120bps lower than the existing portfolio yield.

The unwind of discount of £160m was £76m adverse to prior year (2012: £84m) and reflects the reduction in the discount rate in certain UK long-tail liability lines from 5% to 4%.

Other operating activities

Other operating activities of £104m included central costs, investment expenses, and the ongoing investments in our associates in India and Thailand and our direct operations in Central and Eastern Europe.

LOSS AFTER TAX

The loss after tax was £338m (2012: £327m profit) and return on equity was (9.8)% (2012 restated: 8.7%).

Other items

Other items of £530m included total gains of £32m (2012: £28m) reflect realised gains from the sale of equities and bonds during the year partly offset by a modest decline in the value of investment properties and derivatives.

Solvency II costs of £20m were £12m lower than 2012 as our processes continue to be embedded into our day-to-day operations and our rephasing of the project due to the delayed implementation date.

Reorganisation costs were £356m (2012: £24m). These costs mainly include the impairment of goodwill in Poland and Argentina as a result of lower economic growth expectations and economic uncertainty, and just over £200m of software impairments in our UK business in recognition that our investments between 2006 and 2011 are not producing the benefits anticipated and fresh technology investment is now needed.

Tax

The Group has recognised a tax charge of £94m despite a loss before tax for the year. The charge represented tax on profits in overseas territories, such as Canada and Sweden. In addition losses have arisen in territories, such as the UK and Ireland, where a tax benefit was either not recognised, not available or accrued at a lower rate.

BALANCE SHEET

Investments

The total value of the investment portfolio (including cash) is £13.8bn, representing a decrease of 4% over the year mainly due to adverse foreign exchange and mark-to-market movements. Of the total investment portfolio, 90% was invested in high quality fixed income and cash assets as at the year end.

The fixed interest portfolio remains concentrated on high quality short dated assets, with 98% of the bond portfolio investment grade, and 69% rated AA or above. 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. Our investment exposure in Argentina is £133m and these securities are held to back the liabilities arising out of our insurance operations there.

The average duration of the bond portfolio remains at 3.8 years (2012: 3.8 years). Following the purchase of increased levels of non-government bonds in 2012, levels have remained consistent in 2013 and non-government bonds make up 63% of the bond portfolio.

At the 2013 year end our equity holdings were £583m. Since the year end we have sold c.£460m of equities which has enabled us to realise significant benefit in our capital models.

Reserves

Understandably, our reserving position has recently come into focus. We maintain that the culture, methodologies and governance around the reserving process drive a prudent reserving policy and reserves remains significantly to the right side of best estimate. The events in Ireland in 2013 have tested but do not fundamentally change our view on this. Prior year profits have historically been a consistent and high quality part of the underwriting result. Nevertheless, there will always be some portfolios that require reserve strengthening each year. In the case of Ireland, the size of strengthening was significantly larger than we would normally encounter, and this was very disappointing for us. What is important though is that RSA has a diverse set of portfolios, and each year there are more portfolios that run off positively than require strengthening, such that we have a strong track record of positive prior year development.

We have confidence in the adequacy of our overall claims reserves. Our own assessment of the margin in reserves (the difference between our actuarial indication and the booked reserves you see in the accounts) is 5% of total booked claims reserves.

However, the events of 2013 and the commencement of the business review have proved an appropriate point at which to gain some external independent assurance over RSA's reserving position. We appointed Towers Watson to review our own Actuarial Indication net of reinsurance claims reserves. This review covered specified segments of our global business, excluding Ireland, representing around 90% of the Group's total net claims reserves. The review was based on data as at 30 September 2013, with the exception of Canada which was based on the 2013 year end position. Towers Watson concluded that RSA's actuarial indication net claims reserves fall within a range of reserves regarded as reasonable by them.

Following the 2013 year-end, we have purchased an Adverse Development Cover, underwritten by Berkshire Hathaway and covering the insurance liabilities in existence at 31 December 2012. It provides £550m of cover with an attachment point which is £550m above our undiscounted actuarial indication. RSA retains 20% of the exposure. This cover provides significant benefit to our capital and rating agency models as it reduces our exposure to significant adverse development.

CAPITAL POSITION

The Group monitors a range of capital measures. The disappointing events of 2013 have had a detrimental effect on all of these measures.

At 31 December 2013, shareholders' funds were £2,893m, down 23% from the start of the year. This was primarily driven by the loss for the year, dividends paid, foreign exchange losses, and adverse mark-to-market movements on our bond portfolio. Net asset value per share was 75p (2012: 101p).

NET WRITTEN PREMIUMS (£m)

COMBINED OPERATING RATIO (%)*

UNDERLYING RETURN ON TANGIBLE EQUITY (%)

* Restated for changes to IAS 19 'Employee Benefits'

INVESTMENT RESULT

£m	2013	2012	Movement (%)
Bonds	382	403	(5)
Equities	47	57	(18)
Cash and cash equivalents	25	15	67
Land and buildings	28	28	–
Other	11	12	(8)
Investment income	493	515	(4)
Unwind of discount	(160)	(84)	(90)
Investment result	333	431	(23)

On regulatory capital, our IGD surplus was £0.2bn at the year end (2012: £1.2bn), representing coverage of 1.1 times the requirement (2012: 1.9 times).

Our Economic Capital surplus, 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 years, stood at £0.7bn (2012: £0.7bn), representing coverage of 1.3 times the requirement.

The business review actions already taken, together with the proposed rights issue (which is fully underwritten), will increase IGD surplus to an estimated £1.3bn and ECA surplus to an estimated £1.4bn. Ongoing action, including disposals, will improve this further.

RATING AGENCIES

S&P and Moody's Investor Service provide insurance financial strength ratings for the Group and its principal subsidiaries. The Group was upgraded by S&P to a rating of A 'stable outlook' after the approval of the 2013 Annual Report, and is rated A2 'negative outlook' by Moody's.

PENSION FUND

In July 2013, we announced that the Group had agreed, with the Trustees of our main UK pension schemes, the pension deficit funding contributions following the completion of the latest triennial actuarial valuations.

As at 31 March 2012, the main UK schemes, Royal Insurance Group Pension Scheme (RIGPS), the SAL Pension Scheme (SALPS) and the Bradford scheme were c.93% funded on the prudent measure that the Trustees are required to use, with a combined deficit of £477m[1]. This compares to a combined deficit of £725m[1] at 31 March 2009.

Guaranteed deficit funding contributions for these schemes of c.£64m p.a. will be paid in 2014, 2015 and 2016. This compares with deficit funding contributions of c.£72m in 2012 and c.£65m in 2013.

On an IAS 19 accounting basis the UK pension fund position has improved by £53m since 31 December 2012 to a deficit of £58m. This is driven by funding contributions in the year and the remeasurement of assets following the introduction of IFRS 13 Fair Value Measurement. The overseas pension deficit has improved by £29m since 31 December 2012, to a deficit of £67m, principally due to an increase in the discount rate applied to the Canadian pension scheme.

2013 DIVIDEND

The 2013 results, together with the launch of a rights issue, mean that a final dividend cannot be justified. The total dividend for 2013 is therefore 2.28 pence per share (2012: 7.31 pence).

SUMMARY

Despite the disappointments of 2013, we believe that following the thorough review of the business, the actions we have already taken, and the actions that we are planning to complete in the coming months, the Group is now well placed for the future.

Richard Houghton
Group Chief Financial Officer

% OF BOND PORTFOLIO RATED AA OR ABOVE

69%

MARGIN IN CLAIMS RESERVES

5%

CREDIT RATINGS*

S&P

A

(STABLE OUTLOOK)

Upgraded to A 'stable outlook' after the approval of the 2013 Annual Report

MOODY'S

A2

(NEGATIVE OUTLOOK)

* Group and principal subsidiaries

1 Amendment made from printed version.

SCANDINAVIA FINANCIAL REVIEW

SCANDINAVIA

Our Scandinavian business continued to perform strongly, delivering an underwriting profit of £225m (2012: £237m) and a combined ratio of 88.1%, in line with our expectations of a combined ratio in the mid-high 80s.

Net written premiums of £1,863m in Scandinavia were flat at constant exchange (2012: £1,791m as reported; £1,870m at constant exchange) with growth in Sweden and Norway offset by targeted reductions in Denmark where we continue to focus on improving profitability.

Growth in Sweden was driven by good new business levels in Household and Personal Accident, both up 6%. In Norway growth was driven by Household, up 33%, as we benefit from strong volumes coming through our agent distribution network, and Care, up 25%, driven in part by our strategic partner, Vertikal.

In Denmark we continue to make progress in returning the business to stronger profitability. In particular, we have continue to push hard on risk selection and targeted rate increases and, as a result, we've seen volume reductions across most lines, with premiums down 6% overall.

The Scandinavian underwriting result was a profit of £225m (2012: £237m). The result was affected by windstorm St. Jude, in October, which heavily impacted Denmark, with record wind speeds with a total net cost to RSA in Scandinavia of £25m. Windstorm Xaver, in December, also impacted Denmark and Sweden resulting in a net loss of £11m. In total, weather losses in Scandinavia were over half a point of the combined ratio adverse to the long-term average. In addition to this, the first half of 2013 saw an unusual level of large Commercial losses, particularly in Swedish Property and Renewable Energy. The pattern of large losses reverted to more normal levels in the second half. Despite these events, the business delivered a combined ratio of 88.1%.

In Scandinavian Personal Lines, profitability was strong with an underwriting result of £236m and a combined ratio of 76.9% which was 3.2 points better than prior year. This mainly reflects an improving performance in Danish Personal which benefited from continued rating action and a lower underlying claims ratio. Sweden and Norway Personal also saw increased underwriting profits. Scandinavia Commercial made an underwriting loss of £11m with a combined ratio of 101.6% (2012: 94.6%) driven by the weather losses and elevated large loss frequency in the first half discussed above.

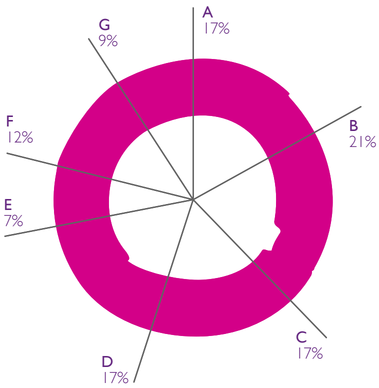
After including investment returns of £79m (2012: £94m), the insurance result was £304m (2012: £331m).

OUTLOOK

We continue to expect the Scandinavian P&C markets to grow in line with local GDP growth, and we expect to grow in line with the market. We're continuing to make good progress in improving the balance of profitability across the region. Our focus is on continued strong profitability in Sweden, improving profitability in Denmark whilst focusing on profitable growth in Norway. We expect the business to continue to deliver combined ratios in the mid-high 80s.

SCANDINAVIA: SPLIT OF 2013 NWP

- A Household
- B Personal Motor
- C Personal Accident and other
- D Commercial Property
- E Liability
- F Commercial Motor
- G Marine and other



SCANDINAVIA FINANCIAL SUMMARY

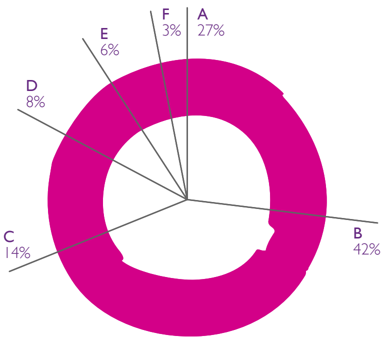
	2013 net written premiums		Underwriting result		COR
	£m	% growth[1]	2013 (£m)	2012 (£m)	2013 (%)
Personal	1,028	1	236	194	76.9
Commercial	835	(2)	(11)	43	101.6
Total	**1,863**	**–**	**225**	**237**	**88.1**
Sweden	1,032	2	153	157	
Denmark	656	(6)	63	75	
Norway	175	10	9	5	
Total	**1,863**	**–**	**225**	**237**	

[1] At constant exchange

CANADA FINANCIAL REVIEW

CANADA: SPLIT OF 2013 NWP

- A Household
- B Personal Motor
- C Commercial Property
- D Liability
- E Commercial Motor
- F Marine and other



CANADA

2013 was a record year for weather events in Canada. Despite this, our Canadian business delivered an underwriting profit of £10m with a combined ratio of 99.3% which included a weather loss ratio of 8.0% which was significantly above the long-term average. The underlying performance of our Canadian business remains strong.

Net written premiums in Canada were up 11% on a constant exchange rate basis to £1,755m (2012: £1,614m as reported; £1,584m at constant exchange) with 4% organic growth. The integration of L'Union Canadienne (UC) has been successful and delivered £148m of premiums (7 points of growth) in 2013 which was in line with our expectations.

Growth of 11% in Personal benefited by seven points from the UC acquisition. Underlying growth in Personal of 4% was driven by Household, with rate increases across most provinces and strong growth in the Western region. Excluding UC, Personal Motor premiums were flat due to our focus on managing the portfolio for profitability, particularly in the Ontario market where we have seen some rating pressure. As the market begins to adjust pricing following the significant weather events in 2013, we've seen high single-digit rate increases in the Household book in Ontario and Alberta.

In Commercial lines, premiums were up 9% to £562m (2012: £524m as reported) with strong growth of 11% in Property and 15% in Motor. Excluding the acquisition of UC, growth was 3% across the Commercial portfolio reflecting continued rate increases and growth in our Large Commercial and Specialty business lines which were up 4% excluding the impact of UC.

Underwriting profit was £10m (2012: £101m) with profitability severely affected by the June floods in Alberta, the July floods in Toronto and a severe ice storm in Toronto and Eastern Canada in December. The floods in Alberta and Toronto have proved to be the costliest and third costliest natural catastrophes in Canadian history, with net costs to RSA of £44m and £38m respectively. In addition to this, a severe ice storm hit Toronto and Eastern Canada in December with significant damage to trees resulting in extensive power cuts, property and auto damage. The net cost to RSA was £12m. Following each of these events, our priority has been to provide exceptional service, care and support to our customers, brokers and impacted local employees.

The combined ratio was 99.3% (2012: 93.6%). Excluding the impact of adverse weather underlying performance was strong with an improving operating expense ratio (down from 14.2% in 2012 to 13.4% in 2013) as we realise synergies from the ongoing integration of UC. After including investment returns of £67m (2012: £61m), the insurance result was £77m (2012: £162m).

OUTLOOK

2013 has been a very challenging year for us in Canada but our franchise value across the country remains strong. Subject to weather trends, we expect the COR to return to the low-mid 90s in 2014 and we expect to grow premiums in line with market growth of 2–5% per annum.

CANADA FINANCIAL SUMMARY

	2013 net written premiums		Underwriting result		COR
	£m	% growth[1]	2013 (£m)	2012 (£m)	2013 (%)
Personal	1,193	11	38	44	96.8
Commercial	562	9	(28)	57	104.8
Total	**1,755**	**11**	**10**	**101**	**99.3**

[1] At constant exchange

UK AND WESTERN EUROPE FINANCIAL REVIEW

UK AND WESTERN EUROPE

In the UK we have made further progress on refocusing the business, however, we face continued challenging conditions in Personal Motor, and the strengthening of reserves in Liability which included an addition of £60m to reserve margin. We also faced a tough year in our Irish business, but continued to make excellent progress in remediating our business in Italy.

In UK Personal, premiums were down 1% to £1,311m (2012: £1,319). Good growth of 6% in Household was driven by our affinity and broker businesses. Motor was down 9% due to our exit from under-performing segments and continuing competitive market conditions. Underlying growth in Pet was good but overall was down 3% due to an adjustment to pipeline premium. The underwriting result was a profit of £51m (2012: £62m) and the combined ratio was 97.4% (2012: 96.3%). Household underwriting profits were £88m (2012: £50m) whilst Motor made a loss of £40m reflecting the impact of lower volumes impacting our expense ratio and some abnormal severity increases in large losses.

In UK Commercial we are making good progress on refocusing the business. Excluding the £60m addition to margin, underwriting profit would have been £45m and combined ratio of 96.8% but the addition to margin led to an overall loss of £15m (2012: £41m loss) with a combined ratio of 100.6% (2012: 100.9%). Premiums were down 6% mainly reflecting a reduction of 13% in Motor which was driven by targeted reductions we have made throughout the core portfolio as well as the new arrangements for our contract with Motability. Property premiums were down 5% with an underwriting result of £82m reflecting favourable large loss experience and the benefit of the corrective actions. Motor delivered a much improved profit of £8m (2012 restated: £49m loss). The underwriting loss of £119m in Liability reflects encouraging progress in our core Liability business but this has been more than offset by our Legacy book where we have strengthened reserves for deafness and Professional Indemnity, including an addition of £60m to margin.

In the UK, the fourth quarter saw a series of weather events, with a net cost to our UK and Western Europe business of £46m. Despite these events, and the disappointing results in Liability and Personal Motor, the UK business delivered an underwriting profit of £36m (2012: £21m) and a combined ratio of 99.2% (2012: 98.8%).

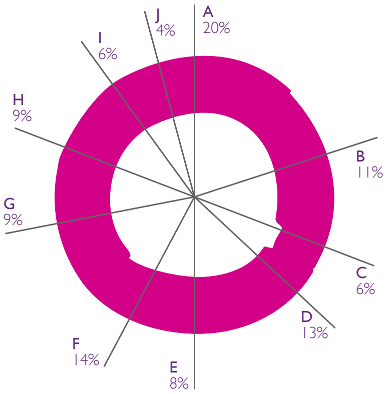
In Western Europe, the Irish underwriting loss of £220m reflects our previous announcements concerning the irregularities in the claims and finance functions and reserve strengthening. The European Specialty loss of £41m reflects continued large loss activity, particularly in Germany, and we are taking corrective action on the affected accounts. We have made significant progress in Italy with a much improved 2013 underwriting loss of £1m (2012: loss of £50m) driven by the remedial actions we have taken.

OUTLOOK

In UK Commercial we will focus on maintaining the momentum we have generated on remediating the business and in UK Personal we will focus on maintaining growth in Household and Pet whilst reducing our exposure to Motor and driving remedial action. We have an ongoing focus on managing our costs, and we have delivered a 13% reduction in headcount in our UK business since the beginning of 2012. This focus on costs will continue. In Italy we will continue to deliver on the remedial actions we have put in place, whilst in Ireland we are committed to returning the business to profitability.

UK AND WESTERN EUROPE: SPLIT OF 2013 NWP

A UK Household
B UK Personal Motor
C UK Pet
D UK Commercial Property
E UK Liability
F UK Commercial Motor
G UK Marine
H Ireland
I Italy
J European Specialty



UK AND WESTERN EUROPE FINANCIAL SUMMARY

	2013 net written premiums		Underwriting result		COR
	£m	% growth[1]	2013 (£m)	2012 (£m)	2013 (%)
UK Personal	1,311	(1)	51	62	97.4
UK Commercial	1,592	(6)	(15)	(41)	100.6
Total UK	2,903	(3)	36	21	99.2
Ireland	327	(10)	(220)	24	165.8
Italy	221	–	(1)	(50)	100.5
European Specialty	138	8	(41)	(3)	131.2
Total Western Europe	686	(4)	(262)	(29)	137.9
Total UK and Western Europe	3,589	(4)	(226)	(8)	106.6

[1] At constant exchange

EMERGING MARKETS FINANCIAL REVIEW

EMERGING MARKETS

Our Emerging Markets business has delivered good premium growth and improving profitability, with continued operating leverage. Emerging Markets premiums grew 16% at constant exchange to £1,403m (2012: £1,237m as reported; £1,210m at constant exchange). Including non-consolidated associates in India and Thailand, premiums were up 14% at constant exchange to £1,720m (2012: £1,540m as reported; £1,505m at constant exchange).

Underwriting profits of £46m were up £13m from 2012 with good profitability across all three regions. The combined ratio of 96.9% was in line with 2012. Continued operating leverage on expenses led to a 1.5 point improvement in the expense ratio from 21.6% to 20.1%. However, this was offset by a 1.5 point increase in the loss ratio to 57.3%.

Emerging Markets delivered an investment result of £42m (2012: £45m) leading to an insurance result of £88m which was up 13% from 2012.

In Latin America, premiums were up 15% at constant exchange to £837m (2012: £766m as reported; £725m at constant exchange), including £48m from the 2012 acquisitions in Argentina. In addition to the 2012 acquisitions, there was organic growth of 9% across the region demonstrating strong progress in changing economic conditions. Underwriting profits were £19m (2012: £21m as reported; £19m at constant exchange).

In Central and Eastern Europe and the Middle East (CEEME), premiums were up 14% at constant exchange to £415m (2012: £351m as reported, £363m at constant exchange). Excluding the impact of the exit of our Czech business in 2012, CEEME premiums were up 16% at constant exchange. There was strong growth in all countries but particularly Oman (up 23%) and Russia (up 53%). The underwriting result of £20m mainly reflects a strong performance in Central and Eastern Europe.

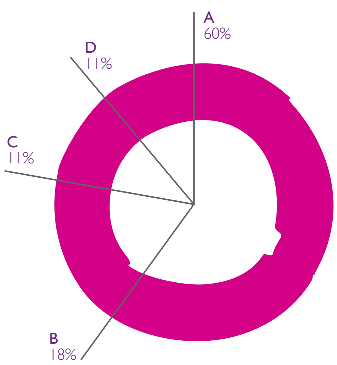
In Asia, premiums were up 24% at constant exchange to £151m (2012: £120m as reported, £122m at constant exchange) with strong double-digit growth across all operations, particularly in Hong Kong (up 27%) and Singapore (up 20%). Our associates in Thailand and India grew 7% at constant exchange. Underwriting profit in Asia was £7m (2012: £5m).

OUTLOOK

Despite both political and economic headwinds in some of our emerging market countries, insurance penetration is still improving and we expect to achieve strong high single-digit/low double-digit organic growth. We also expect to make further improvements in profitability by driving our acquisition costs down through leveraging scale and efficiency. That said, decisions arising from the strategic review may impact results in places.

EMERGING MARKETS: 2013 SPLIT OF NWP

A Latin America
B Central and Eastern Europe
C Middle East
D Asia



EMERGING MARKETS FINANCIAL SUMMARY

	2013 net written premiums		Underwriting result		COR
	£m	% growth[1]	2013 (£m)	2012 (£m)	2013 (%)
Latin America	837	15	19	21	97.4
CEEME	415	14	20	7	95.4
Asia	151	24	7	5	99.2
Total	**1,403**	**16**	**46**	**33**	**96.9**

Asian associates	317	7
Total (incl. associates)	1,720	14

[1] At constant exchange

Our 2013 Strategic Report, from page 8 to page 43, has been reviewed and approved by the Board of directors on 26 February 2014.

Stephen Hester
Group Chief Executive

CHAIRMAN'S GOVERNANCE LETTER

THE BOARD PROMOTES HIGH STANDARDS OF CORPORATE GOVERNANCE THROUGHOUT THE COMPANY AND HAS A SOLID GOVERNANCE FRAMEWORK IN PLACE.

MARTIN SCICLUNA
Chairman

OVERVIEW

You will have read about the challenges that face the Company earlier in the Report. We are operating in many challenging markets and the Board is committed to delivering on our key objectives; namely to improve the capital strength of the Company, optimise the Group's business portfolio and deliver a sustainable dividend into the future; to deliver long-term value to shareholders and provide an exceptional customer experience. Throughout the year, the Board has reviewed and developed Company strategy to drive the business forward, adapting strategy as necessary. We have a strong leadership team with wide ranging experience, expertise and capability and we understand the challenges that we face. Our leadership has been tested during a challenging year in 2013. The Board is confident in the quality of the management team as we enter 2014.

The Board promotes high standards of corporate governance throughout the Company and has a solid corporate governance framework in place. The independent review undertaken by PricewaterhouseCoopers LLP ('PwC') to investigate the financial and regulatory reporting processes and controls within the Irish business, and Group oversight and controls of the Irish business, described the Group's System of Governance and Control Framework as appropriate in terms of structure and design for an international insurance group of our size and complexity, with elements of the framework's design comparing favourably across the market. This framework enables efficient and effective decision-making with clear responsibilities.

BOARD BALANCE AND COMMITMENT

As Chairman of the Board, I am responsible for ensuring that the Board and its Committees operate effectively and have the right balance of skills and experience required. The matters reserved for the Board, the Committee terms of reference and membership of each Committee have been reviewed to ensure they are appropriate and that Committees benefit from varied expertise.

In December, Simon Lee, Group Chief Executive, resigned with immediate effect. As I said at the time, I would like to thank Simon for his contribution to the Company over the last decade. He has provided leadership to the business over the last two years, a period that has featured a number of significant challenges. In his previous role as Chief Executive of International he was instrumental in developing the Group's global portfolio. In February 2014, I was delighted to welcome Stephen Hester as the new Group Chief Executive. Stephen brings a wealth of experience and extensive global financial services expertise. He has the unanimous support of all the directors and we are confident that, with the support of the Board and the Executive Committee, he will work quickly to take the Group forward.

During the year, two of our Non-Executive Directors, John Maxwell and Noel Harwerth, both of whom had served nine years on the Board, retired as directors of the Company. I would like to take this opportunity to thank them for their continued support and service to the Company during their time in office.

In September, we welcomed a new Non-Executive Director, Kath Cates to the Board. Kath has joined the Board with an extensive range of international experience, building on the diverse experience and skills we already have.

Edward Lea and Malcolm Le May have indicated that they do not intend to stand for re-election at the forthcoming Annual General Meeting and will retire as directors with effect from 8 May 2014. With effect from that date, Johanna Waterous will succeed Edward Lea as the Senior Independent Director and Kath Cates will succeed him as Chair of the Board Risk Committee. Jos Streppel will succeed Malcolm Le May as Chair of the Group Investment Committee on the same date. I would like to thank Edward and Malcolm for their significant contribution to the Board over the last 11 and 10 years respectively.

We recognise the importance of diversity for Board effectiveness and are committed to achieving our diversity target which is set out in my report on the Group Nomination Committee on page 61.

Throughout my first year as Chairman, I have kept the Board's performance under review with the aim of improving effectiveness. Given the additional business challenges in respect of the investigation into Ireland's financial and claims irregularities and the business review being undertaken, my colleagues on the Board have demonstrated commitment and dedication in making themselves available to contribute to the discussions and decisions to be made at short notice and I am grateful to them.

During 2013, a review of the executive directors' remuneration framework was undertaken with the intention of simplifying the existing incentive arrangements, creating further alignment of these with shareholders' interests and the Company's business strategy. Its structure and terms satisfy the principal requirements of leading UK corporate governance bodies in relation to remuneration policy. In addition a review of Non-Executive Directors' fees was undertaken during the year, which resulted in a targeted increase in fees following a benchmarking exercise. Further details of the new Long-Term Incentive Plan (the 'Performance Share Plan') and Non-Executive Directors' remuneration are detailed in the Directors' Remuneration Report on pages 69 to 93.

COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE

Throughout the year, the Company has complied with the Principles and Provisions of the 2012 UK Corporate Governance Code (the 'Code'), with the exception of the period from 13 December 2013 to 4 February 2014, when I performed the role of Executive Chairman on an interim basis following the departure of Simon Lee on 12 December 2013. Following the appointment of Stephen Hester, I have now reverted to my role as Non-Executive Chairman.

An external performance evaluation has been undertaken during the year to review the performance and effectiveness of the Board, its Committees and individual directors. The evaluation focused on the Board environment, the work of the Board and time effectiveness. Further details of the review can be found on page 54 of this Report.

Further information on compliance against the Main Principles of the Code is contained in the Directors' Remuneration Report and Group Audit Committee Report as applicable.

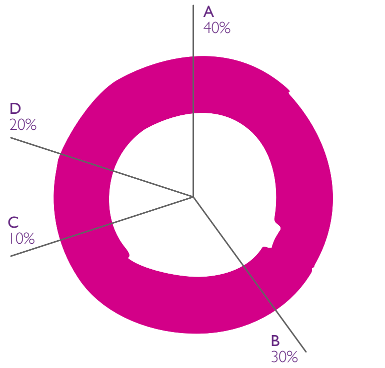
2014 AND BEYOND

We are determined as a Board to deliver on our key objectives and demonstrate our resilience in these challenging times to re-emerge as a stronger Group. I would like to take this opportunity to thank my fellow directors for the contribution and commitment they have made to this end.

Martin Scicluna
Chairman
26 February 2014

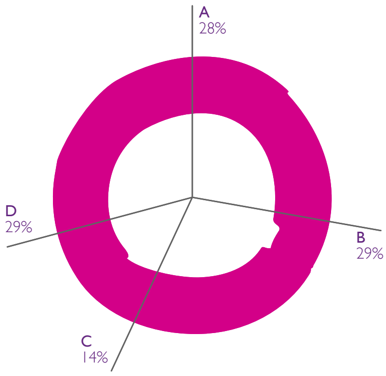
BOARD TENURE

A 0 to 3 years
B 3 to 6 years
C 6 to 9 years
D Over 9 years



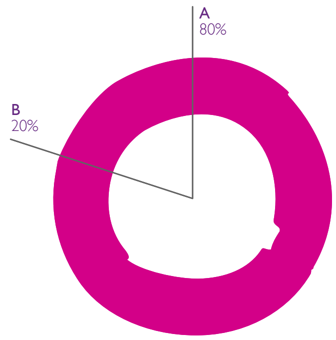
BOARD EXPERIENCE OF NON-EXECUTIVE DIRECTORS

A UK
B Europe
C Asia
D Americas



BOARD DIVERSITY

A Men
B Women



All information above as at 31 December 2013

BOARD OF DIRECTORS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2


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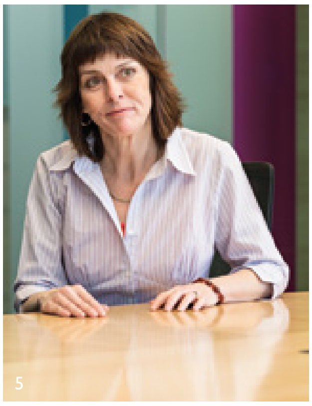
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11

COMMITTEE MEMBER KEY

A Group Audit Committee
B Board Risk Committee
I Group Investment Committee
N Group Nomination Committee
R Group Remuneration Committee
* Denotes Chair of Committee

Executive Directors
Non-Executive Directors

1. MARTIN SCICLUNA B, I, N*
Chairman

Skills and experience: Martin was appointed as Chairman and Director in January 2013. Martin has considerable knowledge and understanding of the financial services sector and Board experience. Previous roles include Non-Executive Director and Chairman of the Audit Committee, Lloyds Banking Group plc, 34 years at Deloitte LLP, 26 years of which as Partner, Chairman of Deloitte LLP from 1995 to 2007 and a Director, Deloitte Touche Tohmatsu from 1999 to 2007.

External appointments: Chairman of Great Portland Estates plc, Non-Executive Director and Chairman of the Audit Committee of Ship Midco Limited, trading as Worldpay and a Board member of the Financial Services Trade and Investment Board.

2. STEPHEN HESTER B, I
Group Chief Executive

Skills and experience: Stephen was appointed as Group Chief Executive and Director in February 2014. Previous roles include Chief Executive Officer, The Royal Bank of Scotland Group plc, 2008–13, where he led the largest ever corporate restructuring and recovery programme; Chief Executive, British Land plc from 2004 to 2008, Chief Operating Officer, Abbey National plc and a number of senior roles at Credit Suisse First Boston in London and New York. Stephen has over 30 years' experience in financial services and FTSE100 companies with expertise in transforming the performance of businesses.

External appointments: Trustee of The Royal Botanic Gardens, Kew Foundation.

3. RICHARD HOUGHTON B, I
Group Chief Financial Officer

Skills and experience: Richard was appointed Group Chief Financial Officer in June 2012. Previous roles include Group CFO of Aspen Insurance Holdings Limited, COO and CFO at RBS Insurance, Finance Director of Ulster Bank, Finance Director of Direct Line and Accountant at Deloitte & Touche. He is a Fellow of the Institute of Chartered Accountants in England and Wales.

External appointments: No external appointments to listed companies.

4. ADRIAN BROWN
Chief Executive, UK and Western Europe

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

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

5. KATH CATES A, B
Independent Non-Executive Director

Skills and experience: Kath Cates was appointed as a Non-Executive Director in September 2013. She has over 20 years of experience in global financial services and until recently was Chief Operating Officer, Wholesale Banking for Standard Chartered Bank. Previous roles include 22 years at UBS. Kath has gained a deep knowledge of control, governance and risk management, working in emerging markets and across different sectors and cultures.

External appointments: None currently held.

6. EDWARD LEA A, B*, N
Senior Independent Non-Executive Director

Skills and experience: Edward Lea was appointed as a Non-Executive Director in July 2003 and was appointed Senior Independent Director in January 2011. Previous roles include Finance Director of BUPA, ASDA and MFI, Chairman of Redbourn Group Limited, Director of McIntyre Care. He has extensive experience of financial management and business development in quoted and international business groups.

External appointments: Director of Powertraveller Limited.

7. ALASTAIR BARBOUR A*, B, I, N
Independent Non-Executive Director

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

External appointments: Non-Executive Director of Phoenix Group Holdings, Standard Life European Private Equity Trust plc, Liontrust Asset Management plc, CATCo Reinsurance Opportunities Fund Limited, The Bank of N.T. Butterfield & Son Limited (a company listed in Bermuda) and a Fellow of the Institute of Chartered Accountants in England and Wales.

8. HUGH MITCHELL N, R*
Independent Non-Executive Director

Skills and experience: Hugh Mitchell was appointed as a Non-Executive Director in September 2012. Hugh is the Chief Human Resources and Corporate Officer of Royal Dutch Shell plc and a member of the Shell Executive Committee. Hugh has considerable experience in advising on HR and remuneration matters.

External appointments: Director of Shell International Limited, Shell Foundation and Shell Aircraft Limited. Advisory roles held at The Centre for Advanced Human Resources at Cornell University Advisory Board, IMD Business School Advisory Board, Fellow of the National Academy of Human Resources (USA) and Honorary Vice-President of the Chartered Institute of Personnel and Development.

9. MALCOLM LE MAY B, I*, R
Independent Non-Executive Director

Skills and experience: Malcolm Le May was appointed as a Non-Executive Director in March 2004. Previous roles include CEO Investment Banking (Europe) at UBS, Deputy CEO of ING-Barings and Morley Fund Management and President Europe at JER Partners. Malcolm has significant experience of financial and investment management.

External appointments: Non-Executive Director of Pendragon plc, Provident Financial plc and Consultant to Ernst & Young LLP.

10. JOSEPH STREPPEL I, R
Independent Non-Executive Director

Skills and experience: Jos Streppel was appointed as a Non-Executive Director in October 2011 and has a comprehensive understanding of the insurance market globally, extensive financial services expertise and a good knowledge of international and emerging markets. Previous roles include Chief Financial Officer of Aegon until 2009, Chairman of the Monitoring Committee of the Dutch Corporate Governance Code and Advisor to the Tilburg Centre of Finance.

External appointments: Chairman of KPN, Vice-Chairman of Van Lanschot, a Dutch private banking and asset management firm, Director of Arq Foundation, Chairman of Duisenberg School of Finance and Chairman of the Advisory Board of the Royal Dutch Society of Actuaries.

11. JOHANNA WATEROUS CBE A, N, R
Independent Non-Executive Director

Skills and experience: Johanna Waterous was appointed as a Non-Executive Director in May 2008. Previous roles include Chairman of Tate Enterprises and over 20 years with McKinsey & Company, with roles including Co-leader of the Global Marketing and Sales Practice and Leader of their UK Consumer Practice and the European Retail Practice. Johanna brings deep expertise on consumer behaviour, sales and marketing across multiple sectors.

External appointments: Non-Executive Director of WM Morrison Supermarkets plc, Non-Executive Director and Senior Independent Director of Rexam PLC, Director of RBG Kew Enterprises Limited, Chairman of Sandpiper CI and Director of Shoppers Drug Mart Corporation (a company listed on the Toronto Stock Exchange).

EXECUTIVE COMMITTEE

THE EXECUTIVE COMMITTEE COMPRISES THE EXECUTIVE DIRECTORS WHOSE BIOGRAPHIES ARE ON PAGE 47 AND THE FOLLOWING SENIOR EXECUTIVES:

1. MIKE HOLLIDAY-WILLIAMS
Chief Executive, Scandinavia

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

2. ROWAN SAUNDERS
President and CEO, RSA Canada

Rowan was appointed to the position of President and CEO of RSA Canada in September 2003 and is a member of the Canadian Board of Directors. Since joining RSA in 1987, Rowan has held progressive leadership positions in the areas of underwriting, marketing, sales and finance. He is a member of the Board of Directors of the Insurance Bureau of Canada (IBC) and was the IBC's past Chair. Rowan is currently a Non-Executive Director at Equitable Group Inc., a publicly traded company on the Toronto Stock Exchange.

3. PAUL WHITTAKER
Chief Executive, Emerging Markets

Paul was appointed Chief Executive of Emerging Markets in 2006. He has over 20 years' senior management experience in the financial services sector including three years at AXA and 10 years at GE Capital, including work in Asia and Eastern Europe on acquisition integration and business development.

4. DEREK WALSH
Group General Counsel and Group Company Secretary

Derek joined RSA as Group General Counsel and Group Company Secretary in July 2010 and has over 19 years' experience in the insurance industry. From 2002, he served as Group General Counsel at Benfield Group Limited, where he was responsible for the global legal, company secretarial and compliance teams. Prior to that, Derek held positions in law firms Pinsent Curtis (now Pinsent Masons), McKenna & Co (now CMS Cameron McKenna) and Norton Rose.

5. CAROLINE RAMSAY
Group Chief Auditor

Caroline has been with the Group since 2007. She was appointed Group Chief Auditor in September 2012 having been Group Financial Planning and Analysis Director, and UK Finance Director. Prior to joining RSA, Caroline held a number of finance roles at Aviva and spent 12 years at KPMG.

6. DAVID WEYMOUTH
Group Chief Risk Officer

Currently Group Chief Risk Officer, David joined the Group in June 2007 and was Group Operations and Risk Director until November 2012. Immediately prior to that David spent two years consulting to blue chip and government organisations. Previously David was CIO at Barclays and a member of the Group Executive Committee. He has extensive non-executive experience and is currently a Non-Executive Director at the Royal London Group and at the Financial Services Compensation Scheme.

7. VANESSA EVANS
Group Human Resources Director

Vanessa took up the role of Group Human Resources Director in September 2011. She joined RSA in 2005 as Human Resources Business Partner Director in the UK, and has worked in a variety of roles across the Group. In 2006 she was promoted to Human Resources Director for the Emerging Markets Region. In 2008, she was promoted again to the role of UK Human Resources Director. Prior to working at RSA, Vanessa was HR Director – Global Retail at Lego and before that Head of HR for Gap, the international clothing retailer.

8. NEIL LIGHTBOWN
Group Global Specialty Lines Director

Neil was appointed Group Global Specialty Lines Director in April 2013. He joined RSA in 2009 as UK Underwriting and Strategic Claims Director, having previously worked at Zurich Financial Services as Chief Underwriting Officer for International Businesses. He has 30 years of experience in the industry.

9. DAVID COUGHLAN
Group Underwriting Director

David was appointed Group Underwriting Director in July 2013. He joined RSA in March 2008 as Group Motor Portfolio Director and in February 2010 became Underwriting and Claims Director, Emerging Markets. Prior to RSA, David was at Zurich Financial Services where he was Head of Personal Lines underwriting and Chief Pricing Actuary for the Zurich Group. David has 25 years of insurance experience in underwriting, pricing and actuarial related matters, and is a Fellow of the Institute of Actuaries.

10. PAUL DONALDSON
Group Broker Relationship and Sales Director

Paul was appointed Group Broker Relationship and Sales Director in July 2011. Paul has over 35 years' experience in the insurance industry, having joined RSA in 1976. He has held a number of leadership roles in RSA including Managing Director Commercial in RSA's UK business from 2007 and previously CEO, Republic of Ireland.

LEADERSHIP

DIRECTORS

The names of the directors together with their biographical and Committee membership details are set out on page 47. In addition, Noel Harwerth and John Maxwell served as directors until their resignation on 31 March 2013 and Simon Lee until his resignation on 12 December 2013. Stephen Hester was appointed as a director and Group Chief Executive on 5 February 2014.

Details of the directors' service contracts and terms of appointment, together with their interests in the Company's shares, are shown in the Directors' Remuneration Report on pages 69 to 93 and are incorporated into this report by reference.

With effect from 13 December 2013, on an interim basis the roles of the Chairman and the Group Chief Executive were combined, with Martin Scicluna performing the role of Executive Chairman following the resignation of the Group Chief Executive, Simon Lee. This was a temporary measure until a new Group Chief Executive was identified and appointed. Until 12 December 2013 and from 5 February 2014, the roles of Chairman and Group Chief Executive were separate and complementary, with responsibilities clearly divided. A summary of the role statements for the Chairman, Group Chief Executive and Senior Independent Director are provided later in this report on page 51. No one individual has unfettered powers of decision.

Non-Executive Directors are initially appointed for a three-year term with an expectation that they will continue for at least a further three years. They are nominated by the Group Nomination Committee and subsequently approved by the Board, for election or re-election annually at the Company's Annual General Meeting (AGM) for approval by shareholders. The Company's Articles of Association give the directors power to appoint and replace directors as required.

ROLE OF THE BOARD

The primary responsibility of the Board is to oversee and provide effective leadership to ensure that it promotes the success of the Company for the benefit of the members as a whole. The Board provides entrepreneurial leadership within a framework of prudent and effective controls.

At least annually, the Board reviews the effectiveness of the Group's systems of risk management and internal controls and he overall corporate governance arrangements. In support of this, reviews have been undertaken during the year by Group Internal Audit, PwC and KPMG. The Board ensures that the Company maintains adequate accounting and other records and ensures compliance with statutory and other regulatory obligations. In addition, any changes to the legal, financial and share capital structures of the Company and approval of any significant expenditure, material transactions and contracts, are reserved for the Board.

Following a review by PwC into the financial and regulatory reporting processes and controls within the Irish business, and Group oversight and controls of the Irish business, PwC's review described the Group's System of Governance and Control Framework, as appropriate in terms of structure and design for an international insurance group of this size and complexity, and elements of the framework's design compared favourably across the market. The PwC review concluded that there were no obvious indicators relating to the issues identified in the Irish business that were ignored, at either Regional or Group level, and neither external audit or independent reserve review during 2013 and prior years identified the specific issues that have led to the reported losses in the Irish business. The PwC report made a number of recommendations which are being incorporated into assurance processes.

The Board is responsible for reviewing the effectiveness of the Board and senior executive management and determining the remuneration policy for the Executive Directors, the Chairman, Group General Counsel, and Group Company Secretary and senior executives.

The Board reviews, on an annual basis, a schedule of matters reserved for the Board which includes the approval and regular review of the long-term objectives, operating plans, overall risk appetite and commercial strategy for the development of the Group.

There is a standing agenda of items that is continually refreshed. The Board sets annual objectives for the business in line with the current Group strategy and monitors achievement of the Company's objectives through regular reports which include updates from the Group Chief Executive and the Group Chief Financial Officer (Group CFO) on all material business matters. The Board considers that the information provided to the Board and its Committees is supplied in a timely manner and is of an appropriate quality to enable it to discharge its duties.

In addition to the schedule of matters reserved for the Board, each of its Committees have written terms of reference defining their role and the authority delegated to them. A summary of the matters reserved for the Board and the terms of reference for each Board Committee were reviewed in the year. The terms of reference are available on the Company's website www.rsagroup.com/termsofreference. Further details on the principal duties of each Board Committee can be found under the Board Committees section commencing on page 60, in the Group Audit Committee Report on pages 64 to 68 and the Directors' Remuneration Report on pages 69 to 93.

DIVISION OF RESPONSIBILITIES – SUMMARY OF ROLE STATEMENTS

Role of Chairman

Responsible for:

- Leadership of the Board
- Effectiveness of the Board
- Ensuring provision of timely, accurate and clear information
- Effectiveness and structure of the Board's Committees
- Leading the annual evaluation of the Board's performance
- Performance of Board Committees and individual directors
- Agreeing training and development plans for each director
- Tailored induction of new directors
- Succession planning and Board composition based on the recommendations by the Group Nomination Committee
- Ensuring relevant objectives are established for the Group Chief Executive and his executive team
- Reviewing with the Group Chief Executive the overall management performance of the Company and its senior executives
- Undertaking the role of ambassador for the Company, participating in the engagement and effective communication with the Company's stakeholders.

Role of Group Chief Executive

Responsible for:

- Developing targets and goals for the executive management of the Company
- Developing, recommending and presenting to the Board taking into account any threats or opportunities:
  - strategic plans
  - risk appetite for the business
  - risk exposure
- Preparing detailed business plans for the Company and its major subsidiaries, monitoring the performance of the Group, ensuring that objectives are achieved and business plans are implemented within budget
- To oversee, direct and control financial management and control standards
- Reviewing the organisational framework to ensure that policies relating to management selection, performance review, development and change are appropriate
- Ensuring that management succession plans are in place
- Identifying and executing acquisitions and disposals up to prescribed limits
- Compliance with legal and regulatory requirements of the relevant regulatory bodies
- Developing the Company's communications strategy to meet the needs of, and engage with all internal and external stakeholders
- Representing the Company in the industry and business community.

Has delegated authority, through the Group's Delegated Authority Framework, which defines the limits of expenditure. From time to time additional authorities are delegated from the Board to cover specific matters as required.

Senior Independent Director

Responsible for:

- Providing support to the Chairman in the delivery of his responsibilities when required
- Assisting in matters relating to Board evaluation
- Chairing the Group Nomination Committee when considering matters relating to the Chairman of the Board
- To be available to shareholders on matters which have not been resolved or are not appropriate to be dealt with by the Chairman, Group Chief Executive or other Executive Director
- Holding meetings with the Non-Executive Directors without the Chairman being present to review the Chairman's performance.

Non-Executive Directors

Responsible for:

- Challenging and agreeing the Group's strategy with executive management
- Assessment of performance against Group Strategy
- Participation on Board Committees. Committee selection is regularly reviewed by the Group Nomination Committee based on skills and experience
- Meeting with the Chairman without Executive Directors being present
- Meeting with the Senior Independent Director without the Chairman being present to review the Chairman's performance and other matters.

Further information on the individuals fulfilling these roles can be found on page 47.

FOCUS OF THE BOARD DURING 2013

Strategy	• Review of insurance market and significant business developments • Strategic Corporate Review: focusing on strategic objectives, planning and implementation • Key functional updates and developments • Review of regional strategies with presentations from management teams	• Brand and marketing strategy • Global Specialty Lines • Telematics • UK Personal Lines • UK Commercial Lines • Commencement of the business and strategic review • Corporate Responsibility strategy
Financial	• Monthly review of performance for each business region • Review of profitability against plan • Financial reporting and controls • Review of the capital position against internal and external capital measures • Monitoring share price performance	• Approval of the 2014–16 operational plan • Audit tender process • Significant transactions and contracts • Preparation for Solvency II • Reinsurance protection appetite • Investments appetite and performance
Risk Management and Controls	• Approval of the Group Risk Appetite • Monitoring material claims and reinsurance matters • Capital Risk Appetite	• Conduct Risk • Review of strategic and operational plan risk profiles • Review of financial and regulatory reporting controls • Group oversight and controls of the Irish business
Governance	• Internal audit updates • Annual Directors and Officers Policy renewal update • Investor reaction, analyst consensus and market sentiment • Results and AGM material	• Review of Board evaluation • Regulatory compliance • UK Conduct update • Training and development

The Board held 10 scheduled meetings during the year and five additional meetings. During the year, one Board meeting was held overseas, affording the Non-Executive Directors an opportunity to gain further insight into the business, the local management team and the culture. Where a director was not available to attend a meeting, where possible their views were canvassed by the Chairman prior to the relevant meeting and the Board informed of their opinions and observations. Formal minutes recording the decisions of all Board and Committee meetings are prepared and circulated to each director. If a director objects to a particular decision this is recorded in the minutes of the relevant meeting. When considering matters such as the approval of financial statements and large operational contracts, the Board may delegate authority to a Committee to finalise and approve as required.

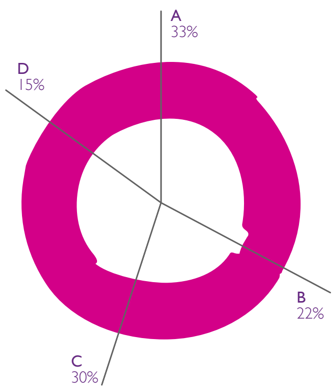
BOARD AND BOARD COMMITTEE ATTENDANCE

	Scheduled Board Meetings Attended	Additional Board Meetings Attended
Martin Scicluna	10/10	5/5
Alastair Barbour	10/10	4/5
Adrian Brown	10/10	5/5
Kath Cates[1]	3/3	3/3
Noel Harwerth[2]	3/3	0/0
Richard Houghton	10/10	5/5
Malcolm Le May	9/10	5/5
John Maxwell[2]	2/3	0/0
Edward Lea	9/10	5/5
Simon Lee[3]	9/10	3/3
Hugh Mitchell	10/10	4/5
Jos Streppel	10/10	5/5
Johanna Waterous	10/10	5/5

Notes:
1. Kath Cates was appointed as a director with effect from 1 September 2013.
2. Noel Harwerth and John Maxwell ceased to be directors with effect from 31 March 2013.
3. Simon Lee ceased to be a director with effect from 12 December 2013.
4. Stephen Hester was appointed as a director with effect from 5 February 2014.

TIME SPENT ON BOARD AND BOARD COMMITTEE ACTIVITIES

A Strategy
B Financial
C Risk Management and Controls
D Governance



EFFECTIVENESS

COMPOSITION OF THE BOARD

Martin Scicluna became Chairman of the Group on 1 January 2013 and for a short period between 13 December 2013 and 4 February 2014, was Executive Chairman, following the resignation of Simon Lee on 12 December 2013, who had served as a director for seven years. Noel Harwerth and John Maxwell who had served nine years, resigned as directors with effect from 31 March 2013. Kath Cates was appointed as a director with effect from 1 September 2013 and Stephen Hester was appointed as a director and Group Chief Executive on 5 February 2014. Edward Lea and Malcolm Le May have indicated that they do not intend to offer themselves for re-election at the 2014 AGM and will leave the Board after 11 and 10 years respectively as Non-Executive Directors on 8 May 2014.

In accordance with the Code, the Board believes that it has the appropriate balance of skills, experience, independence and knowledge to enable it, and its Committees to discharge their duties and responsibilities effectively. The Board is satisfied that it is of a size appropriate to the needs of the business and that no individual or small group of directors can dominate the Board's decision making.

When appointing new directors, regard is given to the size of the Board, the balance of Executive and Non-Executive Directors, and the benefits of diversity, including gender. The Board considers the skills, experience, independence and knowledge already represented when making decisions on new appointments, and ensures that succession planning processes are in place. Each director is nominated by the Group Nomination Committee and subsequently approved by the Board for election or re-election annually at the Company's AGM for approval by shareholders.

The Board reviews the membership of its Committees on an annual basis to ensure they remain appropriate. Further details on changes to Board Committee membership are contained in the relevant Committee report. Only members of the Board Committees are entitled to attend Committee meetings; however, the Committee or its chairman may invite any directors, other executives of the Group or any external professional advisers to attend all or part of any meetings as and when required.

INDUCTION, TRAINING AND DEVELOPMENT OF DIRECTORS

Upon appointment to the Board and any Committee, directors undertake an induction programme, receiving a broad range of information about the Company which is tailored to their existing knowledge and experience. This includes information on the operational performance and business of the Group, and details of Board procedures, governance matters and directors' responsibilities, along with a series of meetings with members of the Board and executive management on business and regulatory matters. The Group General Counsel and Group Company Secretary is responsible for assisting the Chairman with arranging induction, training schedules and professional development for the directors, and for bringing all governance matters to the attention of the Board.

Additionally, the Board receive briefings on matters which are material to the Group on the financial and operational performance of the business and briefings on legislative and regulatory changes, and on corporate governance matters affecting the Group.

Each director has an individual training plan for the development and enhancement of their specific business knowledge which is subject to discussion with the Chairman. The directors have access to the services and advice of the Group General Counsel and Group Company Secretary, and in addition may take independent professional advice at the expense of the Company in the furtherance of their duties.

"As a new Non-Executive Director, the Company provided me with a comprehensive overview of all the key components of the business. Coming from a financial services background outside the insurance sector, I requested 'deep-dives' into many areas including reserving, reinsurance and a detailed run through the technical aspects of the different capital measures applied. Meeting with external auditors as well as Group Internal Audit was particularly valuable, and I was also able to attend a global Risk conference to understand the framework and key issues. The whole induction was very thorough, and I now feel well-equipped to discharge my responsibilities as a member of the Board, the Board Risk Committee and the Group Audit Committee."

KATH CATES
Non-Executive Director

Directors' induction programme

A typical directors' induction programme includes an update on the following business areas:

- Overview of each region and business function
- Meetings with the individual Board and Executive Committee members
- Overview from each of the Board Committees
- Corporate governance structure
- Group Operations, Risk and Underwriting
- Reinsurance and Professional Specialty Insurance.
- Claims
- Group Secretariat
- Regulatory Compliance
- Capital
- Internal Audit
- Global Specialty Lines
- Broker Business
- HR
- IT and e-business
- Plus additional tailored meetings and training depending on the individual's skills and experiences.

COMMITMENT

The letters of appointment for the Chairman and each of the Non-Executive Directors set out the anticipated time commitment, being an average of two days per week for the Chairman and 28–32 days per year for Non-Executive Directors. Non-Executive Directors are required to allocate sufficient time to meet the expectations of the role, in attending Board and Committee meetings and the AGM. In addition, directors may be required from time to time to attend additional meetings, training and briefings.

Martin Scicluna is also Chairman of Great Portland Estates plc, was appointed as a director of Ship Midco Limited, trading as Worldpay, on 31 October 2013, and as a member of the Financial Services Trade and Investment Board on 23 September 2013. The Board is satisfied that these commitments are not a constraint on the Chairman's time or his ability to carry out his duties. Between 13 December 2013 and 4 February 2014, the Chairman undertook the role of Executive Chairman, which combined the role of Chairman and Group Chief Executive until a replacement Group Chief Executive was appointed. Upon his appointment as Executive Chairman, the Board confirmed that due to the interim nature of the appointment, they were satisfied that Martin Scicluna's external commitments would not restrict him from effectively performing this role.

Stephen Hester, Richard Houghton and Adrian Brown, Executive Directors of the Company, do not hold outside directorships of FTSE100 (or any other listed) companies but would be allowed to have one such appointment, subject to the approval of the Group Nomination Committee.

Service agreements and letters of appointment, for both the Executive and Non-Executive Directors, are available for inspection at the Company's registered office, and at the AGM.

PERFORMANCE EVALUATION

In accordance with the Principles of the Code, an external evaluation of the effectiveness of the Board, its Committee and individual directors, was undertaken in the year by Boardroom Review Limited ('Boardroom Review'). Boardroom Review is a company which has provided independent advice in the field of evaluation since 2004 but which has not previously advised the Company. Boardroom Review has no other connection with the Company and was appointed following a comprehensive review of external providers.

The evaluation was conducted over a period of three months, including interviews with each director, a thorough review of Board and Committee documents and attendance at a Board meeting as an observer.

The review considered the balance, skills, experience, diversity, independence and knowledge of the Company, and focused on three key aspects: Board environment, the work of the Board and use of time. Each of these aspects was further broken down into key elements such as culture, composition, strategy and operations, risk and control, performance management, planning and allocation of time.

Following the completion of the review, the Board received a discussion document outlining an independent view of the Board's strengths and future challenges. Boardroom Review also discussed the findings of the evaluation individually with each director, the Group General Counsel and Group Company Secretary and the Deputy Group Company Secretary, and the performance of each Committee and director with the Chairman. The document offered observations and recommendations for consideration, which were the subject of an initial discussion by the Board at their January 2014 meeting for incorporation into the way the Board will operate during 2014 and beyond. The specific comments were as follows:

- While the relatively small size of the Board encourages an intimate debate and fast decision making, the review noted that the desire for a small Board should not limit the pool of expertise around the Board table, or inhibit the extent of diverse constructive dissent and criticism. It would be helpful if future Non-Executive Directors added to the Board had an in-depth and specific experience of the general insurance sector and an understanding of the fundamental changes taking place across platforms, geographies, clients and customers. The Board was encouraged to consider what lessons could be learnt from their, and management's, handling of recent events. Executive and Non-Executive Directors should allocate time to discuss the risks emerging from culture and strategy, and the activities and behaviour of individual leaders. Site visits, during which directors can make connections and form relationships, will be important in building awareness of the Group as a whole
- The Chairman, the new Group Chief Executive, Group CFO and Committee Chairmen will have particular roles to play in communicating with stakeholders, including regulators, shareholders and the media, as well as employees, as confidence is rebuilt. The ability to work together to identify priorities and integrate into the Group's evolving executive culture should be a particular focus by the Board in the future. Ensuring Board members sit on several Committees and that new Board members attend each Committee at least once during their induction was encouraged. This will increase directors' knowledge of the various Committees and their functions
- Close attention to incentives will be important as new strategic imperatives require alignment between performance and reward, and directors will need a comprehensive understanding and further scrutiny of formal and informal incentive systems throughout the Group. They will also need to increase attention on the role of executive succession planning throughout the Group during this period of uncertainty, particularly for key individuals who may be unsettled by recent events, with regular discussions about people becoming a greater part of the Board's agendas.

As part of the ongoing performance evaluation exercise and in accordance with the Code, the Senior Independent Director met with the Non-Executive Directors to review the Chairman's performance. The review concluded that the Chairman had led the Board in an effective way throughout the year.

ACCOUNTABILITY

STATEMENT BY DIRECTORS

Section 414A of the Companies Act 2006 requires the directors to present a Strategic Report for each financial year of the Company. The information that fulfils the requirements set out in section 414C can be found on pages 8 to 43, and is incorporated by reference into this Report.

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

A balanced and understandable assessment of the Group's position and prospects, and an explanation of its strategy for delivering the objectives of the Company are contained in the Strategic Report on pages 8 to 43 which includes:

- Use of financial instruments by the Company, details of financial risk management objectives and policies of the Company, including the policy for hedging each major type of forecasted transaction for which hedge accounting is used
- The Company's exposure to price risk, credit risk, liquidity risk and cashflow risk
- An indication of likely future developments in the Company's business.

Details of events which have occurred after the reporting period are set out in note 36 on page 165.

The directors' are responsible for preparing the Annual Report and Accounts and consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

The Directors' Responsibility Statement appears on page 94 and is incorporated by reference into this Report.

A report from the external auditor can be found on pages 95 to 98.

GOING CONCERN

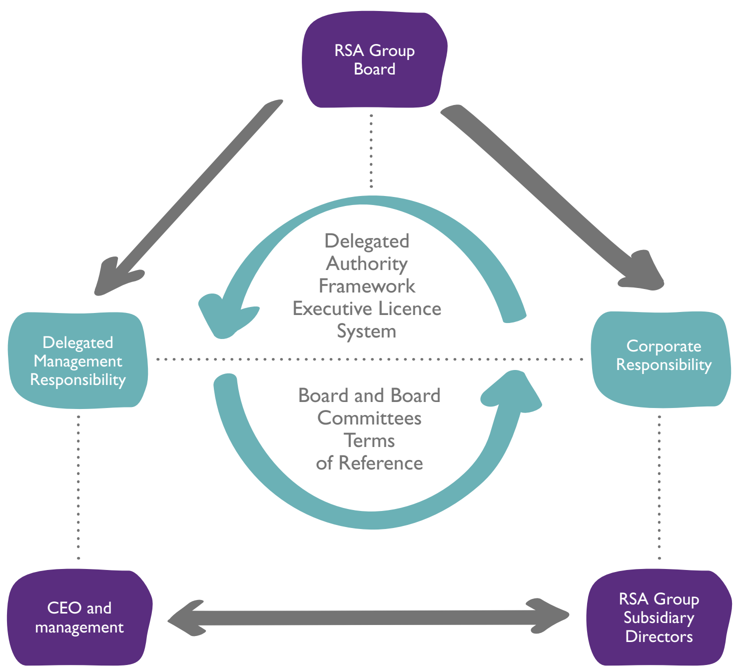
In considering the appropriateness of the going concern basis, the Board has reviewed the Group's ongoing financial commitments for the next 12 months and beyond. The Board's review included the Group's strategic plans and updated forecasts, capital position, liquidity and credit facilities, and investment portfolio. As a result of this review, the directors have satisfied themselves that it is appropriate to prepare these financial statements on a going concern basis.

DELEGATED AUTHORITY AND CORPORATE GOVERNANCE FRAMEWORK

The purpose of the Corporate Governance Framework is to determine how the Group meets its legislative and regulatory governance requirements, enabling effective and efficient decision making by the Board and Committees. It defines clear responsibilities and defines how the Group is directed and managed.

The Delegated Authority Framework specifies how executive authority is delegated from the Board to the Group Chief Executive and onward delegation to other executives in the Group. Senior executives across the Group receive an executive licence setting out their specific limits of authority in terms of entering into financial, underwriting, claims and other business commitments. Each executive is responsible for ensuring a similar process of delegation is in place within his or her area of responsibility. Further detail on the overall risk framework is set out on pages 32 to 35.

DELEGATED AUTHORITY AND CORPORATE GOVERNANCE FRAMEWORK



CONFLICTS OF INTEREST AND RELATED PARTY TRANSACTIONS

In accordance with section 175 of the Companies Act 2006, each director has a duty to avoid conflicts of interest. Under Articles 91 and 92 of the Company's Articles of Association, conflicts of interest may be authorised by the Board or a Board Committee. Directors are required to notify the Group General Counsel and Group Company Secretary when a conflict of interest arises. Each directors' conflicts of interest are reviewed on an annual basis. Any director who has declared a conflict of interest shall not count towards the quorum or vote on any resolution to authorise the conflict of interest and, at the Board's discretion, may be excluded from any meeting at which the conflict of interest is under consideration. Where a conflict of interest is authorised, restrictions may be imposed on the conflicted director, such as excluding the director from the discussion or receiving any information in connection with the conflict of interest.

The Board confirms that it has reviewed the schedule of directors' conflicts of interest during the year and that the procedure in place operated effectively in 2013. None of the directors had any interest in any other contract with the Company, or any of its subsidiaries during 2013, apart from those disclosed in the Related Party Transactions note 33 on page 163.

ESSENTIAL CONTRACTS AND CHANGE OF CONTROL

The Company does not consider that it, or any of its subsidiaries, has any significant agreements to which the Company is a party, that take effect, alter or terminate upon a change of control of the Company following a takeover bid, that are required to be disclosed pursuant to paragraph 13(2)(j) of Schedule 7 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended), other than as disclosed below.

Under the Company's £500m five-year senior committed debt facility, if a change of control occurs, if the majority of lenders require, the facility can be cancelled with immediate effect and all outstanding loans, together with accrued interest, become due and payable.

The Company does not have agreements with any director or employee that would provide compensation for loss of office or employment resulting from a takeover except that provisions of the Company's share schemes and plans may cause options and awards granted to employees under such schemes and plans to vest in such circumstances.

DIRECTORS' INDEMNITY

Article 140 of the Articles of Association provides that, among other things and insofar as permitted by law, the Company may indemnify its directors against any liability and may purchase and maintain insurance against any liability. The Company has granted an indemnity to each of the directors, pursuant to the power conferred by Article 140 of the Articles of Association. The indemnities granted constitute qualifying third-party indemnity provisions, as defined by section 234 of the Companies Act 2006.

The Board undertook a review of the indemnity provisions during 2013 to bring them in line with market practice. The Company believes that it promotes the success of the Company to provide this indemnity to its directors in order to ensure that the Group attracts and retains high calibre directors through competitive terms of employment in line with market standards.

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

In addition, the Company has indemnified the directors of SAL Pension Fund Limited, a majority owned subsidiary of the Group, in relation to its role as Trustee of an occupational pension scheme. This indemnity constitutes a qualifying indemnity provision under section 235 of the Companies Act 2006.

ARTICLES OF ASSOCIATION

The Company's Articles of Association may be amended by special resolution of the Company's ordinary shareholders. The current Articles of Association were adopted at the 2010 AGM and are available on the Company's website at www.rsagroup.com/articles_pdf. Changes proposed to the Articles of Association as recommended by the Board for approval by the shareholders at this year's AGM are set out in the Notice of Meeting.

BORROWING POWERS

Article 98 of the Articles of Association sets out the restrictions of the borrowings of the Company. The aggregate amount, for the time being, remaining borrowed by the Group must not, without the previous sanction of an ordinary resolution of the Company, be more than one and a half times the aggregate of:

(i) The amount paid up on the issued share capital of the Company; and

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

ENGAGEMENT

EMPLOYEES

Engagement, high performance and expertise of the Group's employees are key to the successful delivery of our business strategy. The Company places major emphasis on informing and involving employees with clear and regular communication. Employees had the opportunity to share their views on the Company through a global employee engagement survey during 2013. The results were shared openly and employees are actively encouraged to take improvement actions based on the survey results.

Robust performance and talent management processes are in place across the Group to ensure an ongoing focus on development, the acquisition of talent and ensuring a robust talent pipeline. The Group runs a number of talent programmes for senior and emerging talent and in 2013 a rigorous new talent assessment process was introduced. The Group has a strong track record of retaining talent with low attrition levels among high performing and high potential populations. The Company continues to be recognised in the insurance market for its deep technical expertise.

The Group is committed to the promotion of equal opportunities, diversity and inclusion. In 2013, a new diversity and inclusion programme was launched with focused activity to support its delivery. This includes actions to strengthen the pipeline of female employees in senior leadership positions, including a global female sponsorship programme, female network events and mentorship programmes.

Further details of the Company's employment policy are set out in the Strategic Report on pages 8 to 43 and is incorporated into this Report be reference.

CUSTOMER

Delivering for the Group's customers has been vitally important for the Group since we started back in 1710, and this remains a key priority. Across the Company, the aim is to meet customer needs through the delivery of consistently high quality products and services. This is underpinned by an emphasis on innovation and continuous improvement of the customer experience based on the extensive use of customer feedback and insight. To support this focus, in 2013 the Company initiated work to seek to ensure that customer needs are central to all processes. This work is focused on four areas – Communications, Products and Services, People and Culture and Environment and Channels.

REGULATORS

The Board is responsible to the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) for complying with the Group's UK insurance regulatory obligations. The Board attaches great importance to its regulatory responsibilities and is committed to dealing with the regulators in an open, cooperative and transparent manner. The Board paid close attention to the expectations of the PRA and FCA following their establishment on 1 April 2013, and also monitored developing EU regulation, in particular Solvency II. During the year the PRA and FCA conducted private meetings with several members of the Board and executive management and the Board collectively met with the PRA. In addition, the Group includes a number of regulated entities which foster positive regulatory relationships in support of the businesses. Accordingly, maintaining effective relationships with the Group's regulators across the world is integral to the success of the Group's strategy and its long-term value.

SHAREHOLDERS

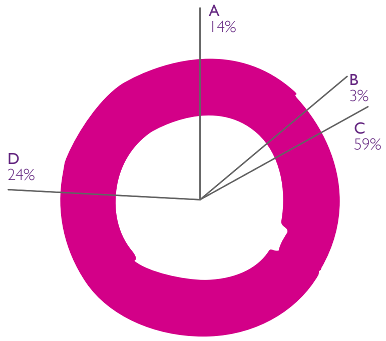
The Group is committed to proactive and constructive interaction with shareholders and other market participants. During 2013 the Company held 449 meetings with institutional investors, and met with 17 of the top 20 shareholders on at least one occasion. The key themes of these meetings centred on events during the year and the outlook and strategic direction of the Group. The Group also held a meeting with the UK Shareholders Association on 29 November 2013.

In 2013, the Group commenced a programme of briefings for investors and analysts to provide more information on the businesses within the Group. There were two briefings in 2013. The first, in June, covered the Canadian business, and the second, in November, covered the Scandinavian business.

The Group's share register consists of a combination of income, growth and value institutional investors predominantly from the UK, Europe and North America. During 2013 there has been a sizeable increase in the proportion of non-UK shareholders, with the top 20 shareholders including investors from Scandinavia, Canada, the US and Asia.

DISTRIBUTION OF SHARES BY GEOGRAPHY

A Europe
B Asia and Others
C UK
D USA and Canada

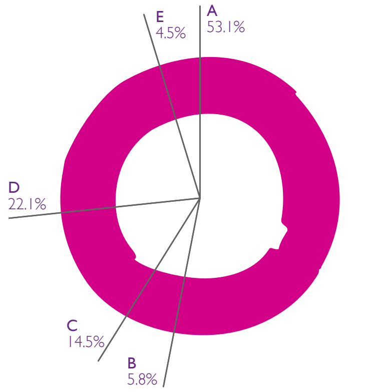


REGISTERED SHAREHOLDINGS BY SIZE (AS AT 31 DECEMBER 2013)

Balance Ranges	Total Number of Holdings	Percentage of Holders	Total Number of Shares	Percentage Issued capital
1–24,999	41,574	95.70%	122,714,590	3.33%
25,000–99,999	1,060	2.44%	46,455,714	1.26%
100,000–499,999	387	0.89%	88,279,766	2.40%
500,000–999,999	114	0.26%	81,708,546	2.22%
1,000,000–1,999,999	95	0.22%	138,504,168	3.76%
2,000,000 and above	211	0.49%	3,204,136,211	87.03%
Totals	43,441	100.00%	3,681,798,995	100.00%

ANALYSIS OF REGISTERED HOLDERS

A Unit trusts/Mutual funds
B Private/Retail
C Pension funds
D Other
E Insurance



SUBSTANTIAL SHARE INTERESTS[1]

	As at 31 December 2013			At 26 February 2014		
	No of ordinary shares	% of voting rights	Nature of holding	No of ordinary shares	% of voting rights	Nature of holding
BlackRock, Inc	188,217,284	5.46%	Indirect & CFD	188,217,284	5.46%	Indirect & CFD
Ameriprise Financial, Inc. and its group	188,902,771	5.13%	Direct, Indirect & CFD	188,902,771	5.13%	Direct, Indirect & CFD
Franklin Mutual Advisers, LLC	184,256,341	5.01%	Direct & Indirect	184,256,341	5.01%	Direct & Indirect
Artemis Investment Management LLP	182,450,614	4.96%	Direct & Indirect	182,450,614	4.96%	Direct & Indirect
Schroders plc	170,851,201	4.953%	Direct & Indirect	170,851,201	4.953%	Direct & Indirect
Newton Investment Management Ltd	168,455,475	4.88%	Indirect	168,455,475	4.88%	Indirect
Standard Life Investments Ltd	152,266,879	4.42%	Direct & Indirect	152,266,879	4.42%	Direct & Indirect

Notes:
1. Interests subject to DTR 5.1.5 which have been notified as falling below 5% are not included in the above table.

Share Capital

Further information on the Company's share capital, together with details of the movements in the Company's issued share capital during the year, and rights attaching to the shares, can be found in note 19 of the notes to the Financial Statements which is incorporated into this report by reference.

The Company is listed on the London Stock Exchange under the code RSA. The average total daily trading volume during 2013 was approximately 14 million ordinary shares. The closing market price of an ordinary share in 2 January 2013 was 127.8p and the closing market price on 31 December 2013 was 91.4p. The highest daily closing price of an ordinary share was 136.3p on 19 February 2013 and the lowest daily closing price was 90.1p on 16 December 2013.

The Company has two classes of shares: ordinary shares of 27.5p each and preference shares of £1 each. Each ordinary share carries the right to one vote at general meetings of the Company and no right to fixed income. As at 31 December 2013, the ordinary shares and the preference shares represented 96.7% and 3.3% respectively of the total issued share capital. Directors are limited as to the number of shares they can allot (save in respect of share schemes). Renewal of the directors' authorities to allot shares will be sought at the 2014 AGM. In addition, directors are restricted by the limits set out by the Association of British Insurers. During 2013, the directors exercised their authorities to allot only in respect of employee share schemes and the Scrip Dividend Scheme.

There are no specific restrictions on the size of a shareholding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and legislation. The directors are not aware of any agreements between the Company's shareholders that may result in restrictions on the transfer of securities or on voting rights. The Company may purchase any of its own shares (including any redeemable shares). An authority from ordinary shareholders for the Company to purchase up to 359,842,892 of its own ordinary shares (representing 10% of its issued share capital as at 6 March 2013) was passed at the 2013 AGM. This authority will expire at the conclusion of the 2014 AGM.

The Company operates three employee benefit trusts to hold ordinary shares in the Company which are used to satisfy grants under the Group's share incentive schemes and Capita Trustees Limited is the current Trustee of each trust. In addition, a Share Incentive Plan (Sharebuild) Trust is operated of which Capita IRG Trustees is the Trustee. The Trustees may vote in respect of any shares held in the Trusts but has no obligation to do so and, in respect of the Royal & Sun Alliance ESOP Trust No. 3, the Trustee may have regard to the financial interests of the beneficiaries in exercising its voting rights over the Company's shares.

The Company did not repurchase any of its shares during 2013.

The Company operates a sponsored American Depositary Receipts (ADR) programme which is managed by JPMorgan Chase NA. The programme allows shareholders to invest in the Company through US dollar denominated funds.

Dividends

The Company will not be offering a final dividend in respect of the financial year ending 31 December 2013. An interim dividend of 2.28p per ordinary share was paid in November 2013 being the total dividend payable for the year (2012: 7.31p).

The Company's preference shares receive a dividend at the rate of 7.375% per annum, paid in two instalments, on or as near as practicably possible, 1 April and 1 October each year.

The Company has the authority to offer a Scrip Dividend Scheme to shareholders wishing to receive new ordinary shares of 27.5p each instead of cash dividends. The Scrip Dividend Scheme was originally established in 2004 and applies to both interim and final dividends. Under Article 130 of the Company's Articles of Association, the Scrip Dividend Scheme requires shareholder approval and the authority currently in place is due to expire on 17 May 2014. The Company is proposing to renew the authority for the Scrip Dividend Scheme at this year's AGM.

AGM

The AGM will be held at 200 Aldersgate, St Paul's, London EC1A 4HD on Friday, 9 May 2014 at 11.00am. A letter from the Chairman and the Notice convening the AGM (the 'Notice') is made available to all ordinary shareholders at least 20 working days before the meeting and can be found on the Company's website at www.rsagroup.com/AGM2014. Presentations are given on the Company's performance and activities during the year and the financial results of the Company prior to the formal business of the meeting. All directors attend the AGM if they are able to do so, with the Chairman and each Board Committee chairman making themselves available to take questions from ordinary shareholders at the AGM.

Separate resolutions are proposed on each item of business. In accordance with the provisions of the Articles of Association, any proxy form sent by the Company to shareholders in relation to any general meeting must be returned to the Company, whether in written form or in electronic form, not less than 48 hours before the time for holding the meeting, excluding non-business days (or, in the case of a poll taken otherwise than at or on the same day as the meeting, not less than 24 hours before the time appointed for the taking of the poll). At any general meeting, every ordinary shareholder present shall have one vote on a show of hands and on a poll, every ordinary shareholder present in person or by proxy shall have one vote for each share of which he/she is the holder. Each resolution will be put to a poll at the AGM in 2014. The results of the vote on each resolution will be announced to the London Stock Exchange and will be available on the Company's website, www.rsagroup.com/AGM2014.

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

At the 2013 AGM, an average of 63.5% of the total issued share capital was voted across all resolutions, with an average of 97.8% voting for all resolutions.

CORPORATE RESPONSIBILITY

The Group's Corporate Responsibility programme supports the communities in which we operate with direct corporate donations to registered charities and through supporting our people to volunteer and fundraise. The strategy focuses on helping to create 'Thriving Communities' by targeting two specific issues: Education and Employability; and Enterprise and Entrepreneurship. More detail can be found in the Strategic Report on pages 8 to 43.

Public Affairs

The Group contributes to public policy debate on issues relevant to the business in countries where it operates, either individually or through industry bodies such as the Association of British Insurers and the Confederation of British Industry. This can include issues such as flooding, motor insurance, asbestos, renewable energy and regulatory reform. The Company engages with policy makers to improve understanding of the role the insurance industry plays in society and the economy.

Employees apply the principles of openness, transparency, honesty and integrity to all of their activity with policy makers. The Company adheres to principles of best practice, declaring the interests which it represents and ensuring that to the best of its knowledge, information provided is unbiased, complete, up-to-date and not misleading.

Each year the Company proposes a resolution authorising political expenditure up to £100,000 for each of donations to political parties and independent election candidates, donations to political organisations and incurring political expenditure. This resolution is proposed in the event that the funding of seminars, functions and charitable donations by the Company may be regarded as political in nature. During the year the Company has not made any donations to political parties or independent election candidates.

Annual Greenhouse Gas Emissions

In accordance with Part 7 of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, certain disclosures are required in respect of greenhouse gas emissions. The information to fulfil this requirement can be found in the Corporate Responsibility section on page 31 and is incorporated into this report by reference.

The greenhouse gas emission reporting covers the UK and Western Europe, Scandinavia, Canada and Emerging Markets businesses, including wholly owned subsidiaries, leased premises and joint ventures. All material emissions sources reported on, are ones deemed to be the responsibility of the Company. The sources align to operational and financial control boundaries. Where data is not provided by the operating entity, estimates have been provided based on relative calculations against other businesses within the Group. For a full methodology statement and scope visit www.rsagroup.com/rsagroup/en/corporate-responsibility.

BOARD COMMITTEES

The following pages 61 to 64 report on the activities of the Board Committees throughout 2013. Separate reports on the activities and duties of the Group Audit Committee and Group Remuneration Committee can be found in the Group Audit Committee Report on pages 64 to 68 and Directors' Remuneration Report on pages 69 to 93 respectively and are incorporated into this Report by reference.

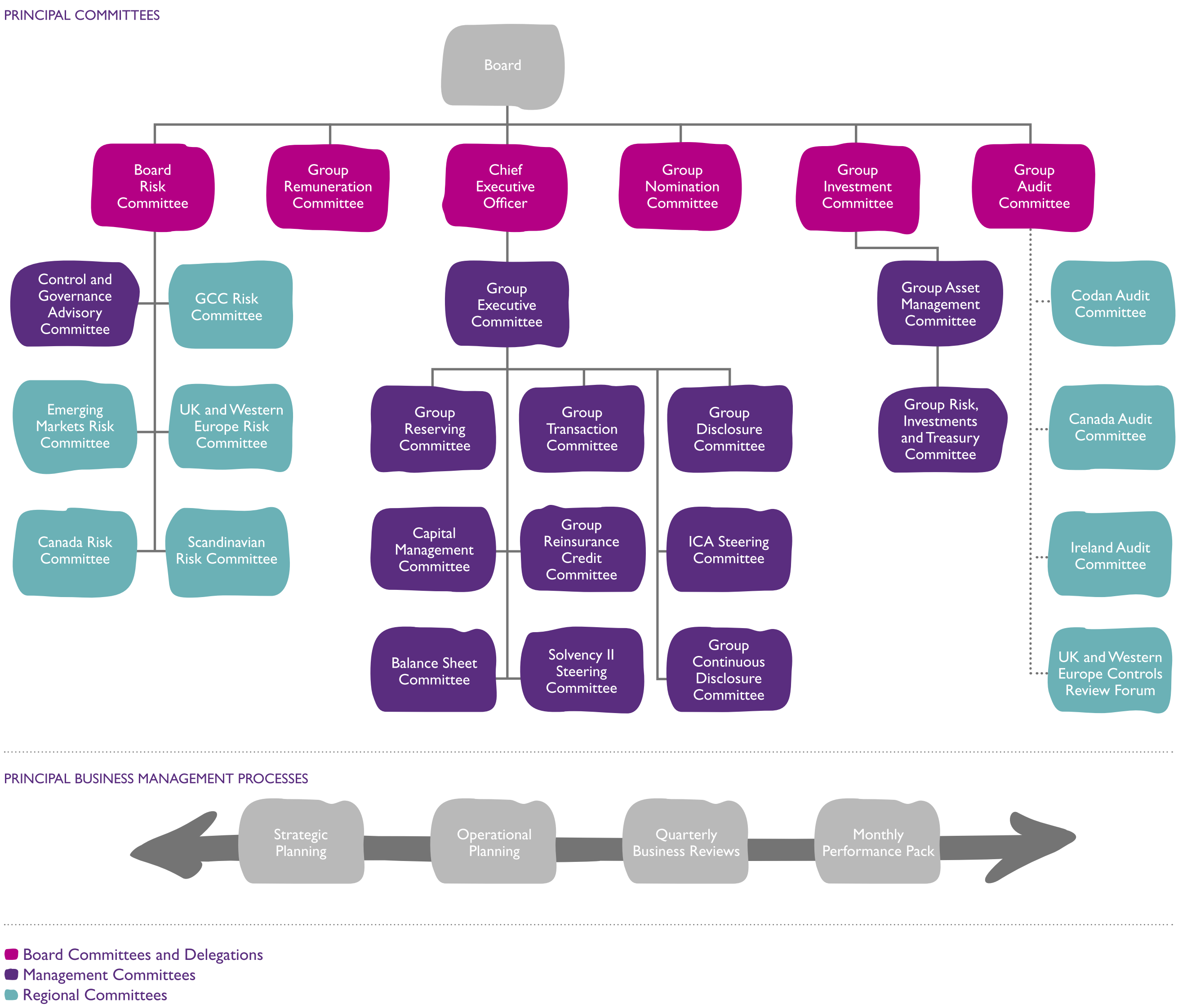
Board Committee Membership

The Board delegates duties to five committees so that matters receive detailed consideration. The composition of each Committee is recommended by the Group Nomination Committee and reviewed on an annual basis. When reviewing Committee membership, consideration is given to each individual's expertise and experience. The Committee's role is enhanced where representation on multiple Committees ensures a good exchange of information between the Committees at all times.

The Corporate Governance Framework – structure of the Board and Committees diagram below, illustrates both the relationship of each Committee to the Board, and also those subsidiary committees that report information and support the purpose of each Board Committee.

Terms of reference for each of the Board Committees set out the authority of the Committee delegated from the Board in order for the Committee to carry out its duties. Each Committee reviewed its terms of reference during the year and these were subsequently approved by the Board. The terms of reference for all the Board Committees are available on the Company's website at www.rsagroup.com/termsofreference.

CORPORATE GOVERNANCE FRAMEWORK – STRUCTURE OF BOARD AND COMMITTEES



GROUP NOMINATION COMMITTEE

	Meetings Attended
Martin Scicluna[2]*	3/3
Alastair Barbour[2]	2/2
John Maxwell[1]	0/1
Edward Lea	2/3
Hugh Mitchell[2]	2/2
Johanna Waterous	3/3

Notes:
* Chair of Committee
1. John Maxwell ceased to be a member of the Committee with effect from 1 March 2013.
2. Alastair Barbour and Hugh Mitchell became members of the Committee with effect from 1 March 2013 and Martin Scicluna with effect from 8 February 2013.

As Chairman of the Group Nomination Committee, the purpose of this report is to update shareholders on the activities of this Committee throughout 2013.

I took on the role of Chairman of the Group Nomination Committee in February 2013, and I am supported on this Committee by Alastair Barbour, Edward Lea, Hugh Mitchell and Johanna Waterous. Attendance at Committee meetings is shown in the table above.

The principal role of the Committee is to keep under review the capabilities required by the Board, consider the leadership needs of the Group and review succession planning for the Board. The Committee makes recommendations to the Board in relation to the appointment of any new Executive and Non-Executive Directors and the re-appointment of directors on an annual basis with a view to ensuring the continued ability of the Company to compete effectively in the marketplace, and attract and retain key people. The key areas of focus for the Committee during 2013 are shown in the table below.

Group Nomination Committee Focus during 2013
• Consideration and recommendation of directors' appointments at 2013 AGM
• Review of director recruitment
• Consideration of applicants and recommendation of Kath Cates' appointment as director, and search for Group Chief Executive resulting in the appointment of Stephen Hester
• Review of Board composition and succession
• Diversity, balance, experience and independence on the Board

Edward Lea and Malcolm Le May have decided not to offer themselves for re-election at the 2014 AGM and will leave the Board after 11 and 10 years respectively as Non-Executive Directors on 8 May 2014.

The Group Nomination Committee manages the process of identifying potential Board appointees and recommending candidates for assessment by the Board as a whole. During the year the Committee continued to focus on ensuring that the right balance of skills, experience, knowledge, independence and the benefits of diversity, including gender were represented on the Board, both currently and in the future. In doing so, in 2013 the Committee identified Kath Cates as a new appointee and made a recommendation to the Board regarding her appointment as a new Non-Executive Director and to the Group Audit and Board Risk Committees. Kath brings overseas experience to the Board. The Committee also commenced a process in late December in respect of the appointment of Stephen Hester, the new Group Chief Executive who was appointed in February 2014.

We recognise the importance of diversity for Board effectiveness and have established a new diversity policy. It is our intention to meet the Davies Report requirements and intend that by 2015, 25% of the Board will be women. We remain committed to ensuring that appointments are ultimately made on merit against the agreed selection criteria.

MWM Consulting Limited, an external search agency, were engaged during the year by the Committee to assist the Company in recruiting directors including the appointment of Kath Cates as a Non-Executive Director, and search for Group Chief Executive resulting in the appointment of Stephen Hester as a director. A description of the role and the capabilities required for each appointment are provided to the agency. Reports on potential appointees are provided to the Committee members who, after careful consideration, made a recommendation to the Board. MWM Consulting Limited is independent and has no other relationship with the Company.

An assessment of the time commitment required to adequately fulfil each role is considered by the Committee and consideration is given to approval of additional commitments of Non-Executive Directors during their tenure, especially where such commitment might affect the time the director is able to devote to their role.

Martin Scicluna
Chairman and Chairman of Group Nomination Committee
26 February 2014

GROUP INVESTMENT COMMITTEE

	Meetings Attended
Martin Scicluna[2]	2/2
Alastair Barbour	2/2
Richard Houghton	2/2
Malcolm Le May*	2/2
Simon Lee[1]	2/2
Jos Streppel[2]	2/2

Notes:
* Chair of Committee
1. Simon Lee ceased to be a member of the Committee with effect from 12 December 2013.
2. Martin Scicluna became a member of the Committee with effect from 8 February 2013 and Jos Streppel from 1 March 2013.
3. Stephen Hester became a member of the Committee with effect from 5 February 2014.

As Chairman of the Group Investment Committee, I am pleased to present an update for the year to shareholders.

Membership of the Committee comprises myself as Chairman, Alastair Barbour, Jos Streppel, Martin Scicluna, Stephen Hester and Richard Houghton. The Group Investments Director attends all meetings of the Committee to provide an update on the economic and market background and outlook affecting the Group, the investment activities taken since the Committee last met and any portfolio actions which require the Committee's approval.

The Group Investment Committee is authorised by the Board to manage all aspects of investment policy and strategy for the Group and provide oversight of the operation of the Group's investment portfolios within established strategy and risk frameworks. The key areas of focus for the Committee during 2013 are shown in the table below.

Group Investment Committee Focus during 2013
• Investment updates including:
– Economic and market development
– Activity, disposition and performance
– Economic and market outlook
– Investment strategy

Global economic and market conditions through 2013 continued to remain challenging. With economic growth remaining subdued, cash rates and bond yields remained close to record low levels, placing downward pressure on investment income. Against this background the Committee continued to review alternatives for enhancing the returns generated by the investment portfolios. This included a strong allocation towards high quality non-government bonds and also a modest further allocation towards loan products.

Although further actions were undertaken to enhance returns the Group Investment Committee continued to ensure that the Group maintained its low risk approach to the management of investment assets. All strategies reviewed and approved were consistent with maintaining the prudent risk framework and the Committee monitored asset disposition to ensure implementation remained in line with expectations.

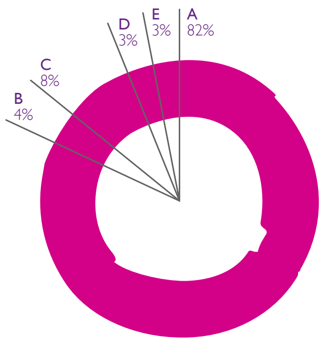
Since the end of 2013, the Group has sold c.£460m of equities to improve its capital position. The proceeds of these disposals were reinvested into bonds or cash in line with the Group's high quality, low risk portfolio strategy.

Malcolm Le May
Non-Executive Director and Chairman of Group Investment Committee
26 February 2014

Details of the Group's investments are contained in the Financial Review on pages 36 to 43.

INVESTMENT PORTFOLIO (AS AT 31 DECEMBER 2013)

A Bonds
B Equities
C Cash
D Property
E Other



BOARD RISK COMMITTEE

	Meetings Attended
Martin Scicluna[4]	4/4
Alastair Barbour[4]	4/4
Kath Cates[1]	2/2
Noel Harwerth[2]	0/1
Richard Houghton	4/4
Malcolm Le May	4/4
Edward Lea[4]*	4/4
Simon Lee[3]	4/4

Notes:
* Chair of Committee
1. Kath Cates became a member of the Committee with effect from 1 September 2013.
2. Noel Harwerth ceased to be a member of the Committee with effect from 31 March 2013.
3. Simon Lee ceased to be a member of the Committee with effect from 12 December 2013.
4. Martin Scicluna became a member of the Committee with effect from 8 February 2013 and Alastair Barbour and Edward Lea from 1 March 2013.
5. Stephen Hester became a member of the Committee with effect from 5 February 2014.

As Chairman of the Board Risk Committee, I am pleased to present the Committee's report for 2013 to shareholders.

I became Chairman of the Committee in March 2013, succeeding Noel Harwerth. Current membership of the Committee comprises Martin Scicluna, Alastair Barbour, Stephen Hester, Richard Houghton, Malcolm Le May and Kath Cates. Regular attendees include the Chief Risk Officer, Group Risk Director, Group Chief Auditor, Director of Underwriting, the Group General Counsel and Group Company Secretary, and the Group Head of Regulatory Risk and Compliance. Regional risk and underwriting officers and other employees or advisers may attend at the invitation of the Committee, and since June the external auditor has also attended meetings. Attendance at Committee meetings is shown in the table above.

The Committee is authorised by the Board to advise on risk management issues, recommend the Group framework of risk limits and risk appetite to the Board for approval and oversee the risk management arrangements of the Company and the Group generally. The Committee ensures that the material risks facing the Group have been identified, and that appropriate arrangements are in place to manage and mitigate those risks effectively.

The Committee has four scheduled meetings a year, which are planned to allow reporting from the business to the Committee on a quarterly basis and for the Committee to report any areas of concern or interest to the Board. Additional meetings may be called if required. The Committee reports to the Board on the outcome of meetings and refers matters to the Board as required.

The key areas of focus for the Committee are shown in the table below, with further detail provided in the report that follows.

Board Risk Committee Focus during 2013

- Chief Risk Officer overview
- Business Risk review:
  - Insurance Risk
  - Financial Risk
  - Reinsurance
- Solvency II and capital review
- Internal model validation
- Remuneration review
- Risk Management System: strategy, appetite, monitoring and management
- Review of Group policies
- 2014–16 operating plan
- Anti-bribery and corruption
- Cyber risk
- Board Risk Committee governance
- Review of findings following PwC's independent review

During the year the Group risk appetite was reviewed by the Committee and refreshed as necessary through the year, before its approval by the Board. The risk department undertook an independent analysis of the Group's operating plan from a risk perspective, which was reviewed and challenged by the Committee and outcomes communicated to management.

The Committee considered the risk management system, including risk assurance mapping and the three lines of defence model. The outputs and key assumptions of the internal capital model were reviewed, in conjunction with the approach and conclusions of our independent internal model validation function. Regular updates were provided to the Committee by management on the strategic direction of the Group's response to Solvency II against the backdrop of confirmation of a start date of 2016, along with regular reviews of the reinsurance programme structure.

The Business Risk review presented at each meeting to the Committee covered insurance risk, including remediation progress on specific risk portfolios, financial risk, and reinsurance risk and strategy. The Committee's review of capital included trends, drivers and sensitivities across different measures and consideration of a new capital appetite structure and forecasting.

The Group's remuneration policy is reviewed by the Committee at least annually, to ensure that risk is properly considered in the overall setting of the policy for the Group and the remuneration of Executive Directors and other senior executives.

Technology risk was reviewed along with a new technology risk framework, and how cyber risks across the Group's different operations are being addressed. Pension risk, along with risks affecting people, reputation and conduct were considered during the year, and the programme of stress and scenario testing continued, with the addition of a detailed reverse stress-test exercise.

In addition, significant risk events and breaches, with any evident or emerging trends, were the subject of ongoing analysis by management and consideration by the Committee, one aspect of which was the review of a root cause analysis pilot study looking at selected material losses, including articulation of management, governance and cultural factors.

The emerging risks profile was refreshed in liaison with external agencies, building on participation with the CRO Forum Emerging Risks Working Group and the World Economic Forum Risk Advisory Council. There has been a rotating focus on individual regions, with regional presentations from all regional risk officers over the last 15 months and an additional committee has been established at the corporate centre to provide greater insight to the Committee.

The Committee considered significant changes in the risk profile and risk appetite during the year. The Group's capital positions weakened during the year due to internal and external factors, which reduced resilience, increased sensitivity to a range of risks and contributed to heightened reputational risk. The most material factors eroding capital buffers were adverse performance (such as weather and Ireland) as well as certain changes of treatment in calculations including those by Standard & Poor's and rising interest rates (affecting the Solvency I IGD ratio). Together with qualitative considerations related to the Ireland events, this led Standard & Poor's to downgrade the Group's core operating entities from A+ to A-.

The Committee devoted significant time to capital during the year, discussing and approving an enhanced capital risk appetite to set out more consistently and explicitly the target range and buffers for each principal capital measure. This was calibrated with reference to a set of standard stress tests, reputational risk assessment and model risks. The Committee oversaw a change in risk appetite during the year to reflect the capital situation: equity exposures were reduced, additional reinsurance protection was purchased, M&A activity was halted and capital action plans were launched.

Members of the Committee, alongside management, have been involved in discussions following the independent PwC review surrounding the risks identified and subsequent recommendations. In 2014, in addition to regular matters, the Committee currently expects to oversee enhancements to the control and assurance framework following PwC's review and the implementation of these along with the Group Audit Committee; to discuss the findings from thematic deep-dives on elements of underwriting and claims risks, and to consider how risk and control culture is defined and assessed.

During the year, the Committee was externally evaluated by Boardroom Review, a provider of independent advice on boardroom effectiveness. This review was in compliance with the Code, the results of which are detailed on page 54. The Committee has discussed the outcomes of that review.

Edward Lea
Senior Independent Director
and Chairman of Board Risk Committee
26 February 2014

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors' Responsibility Statement appears on page 94 and is incorporated by reference into this Report.

By order of the Board

Derek Walsh
Group General Counsel and Group Company Secretary
26 February 2014

GROUP AUDIT COMMITTEE REPORT

I am pleased to present to shareholders the Group Audit Committee Report for 2013, which sets out the responsibilities and the key activities of the Committee, recognising its key role in the governance of the Company. I would like to welcome Kath Cates, who joined the Board and the Committee on 1 September 2013.

As an introduction to the Report, the key areas of focus for the Committee are shown in the table below, with further detail provided in the Report that follows.

Group Audit Committee Focus during 2013

- Reviewing all scheduled results announcements
- Financial accounting and reporting matters
- Financial Control Framework
- Reviewing the effectiveness of internal control and risk management processes
- Selection and recommendation regarding the appointment of the external auditor
- External audit plan, progress and reporting by KPMG
- Group and regional Internal Audit Reports and plan for 2014
- Regulatory Risk and Compliance updates and plans
- Financial crime, money laundering and whistleblowing procedures

A primary focus for the Committee has been reviewing all scheduled results announcements; the 2012 Annual Report and Accounts with particular emphasis on their fair presentation; the reasonableness of judgements made; valuation of assets and liability balances and the appropriateness of significant accounting policies used in their preparation, together with the application of those policies.

The Committee has reviewed the Group's financial reporting, internal control and risk management systems. Events in Ireland, as described on page 16 and discussed below, have been a significant focus in the last quarter of the year and the Committee was active in overseeing the various reviews carried out by PwC, Group Internal Audit and KPMG to assist in understanding what transpired and provide assurance that the same issues did not exist elsewhere in the Group.

The Committee also oversaw an effectiveness review of the Group's Financial Control Framework. This involved consideration and approval of the review plan, regular updates and challenge to management at progress meetings. The proposed changes include enhancements to the existing framework, recommendations regarding accountability, increased coverage and scope which are aimed at providing additional assurance as part of the system of control for the Group.

During the year the Committee was externally evaluated by Boardroom Review as part of the wider review of the Board and its Committees, the outcome of which can be found on page 54.

Alastair WS Barbour
FCA, Non-Executive Director and Chairman of Group Audit Committee

ROLE AND RESPONSIBILITIES

The purpose of the Committee is to assist the Board in discharging its responsibilities for the integrity of the Annual Report and Financial Statements, for the effectiveness of the systems of internal control and financial and regulatory risk management systems, and for monitoring the effectiveness and objectivity of the internal and external auditors.

The Committee has unrestricted access to management, information and external advisers as required in order to fulfil Committee duties, and is satisfied that it has received sufficient, reliable and timely information during 2013, in order to discharge its duties.

COMMITTEE COMPOSITION, SKILLS AND EXPERIENCE

The Committee is comprised of four independent Non-Executive Directors. With effect from 1 September 2013, Kath Cates was appointed to the Committee, bringing substantial overseas business operating experience. The Board is satisfied that the Committee has recent and relevant financial experience as required by the Code, with all members bringing diverse financial, overseas and industry experience which, together with their varied tenure at the Company, enables the members collectively to act as an effective Committee. In addition, three of the four Committee members are also members of the Board Risk Committee, facilitating the close working and ready exchange of information between the two committees.

The Committee acknowledges the importance of keeping skills current and relevant. To that end, it receives training from audit firms and from management. The Committee members review and identify training needs on both a collective and individual basis, and training is arranged as appropriate.

MEETINGS

The Committee held six meetings during the year: four were timed to allow consideration of the financial information being presented to the market in respect of the Group's annual and half-year results and to consider key financial matters supporting the two interim management statements; one in January considered the change of external auditor; and the final meeting in December considered and approved the Group Internal Audit and Regulatory Risk and Compliance plans for 2014, and considered matters which were anticipated would impact the 2013 year-end financial reporting processes.

The Committee members met privately before each scheduled meeting to discuss issues on which to concentrate with management and advisers in the meeting. The Committee held regular private meetings with the Group Chief Auditor and the external auditor without other members of management being present.

The Group Chief Executive, the Group CFO, the Group General Counsel and Group Company Secretary, the Group Chief Auditor, the Group Head of Regulatory Risk and Compliance and representatives of the external auditor, KPMG, are regular attendees at Committee meetings by invitation. The Chairman attended Committee meetings in February and August, when full-year and half-year results were considered. Other members of management and external advisers may attend at the invitation of the Committee.

Details of membership and attendance at Committee meetings are shown in the table below.

	Meetings Attended
Alastair Barbour*	6/6
Kath Cates[1]	2/2
Noel Harwerth[2]	1/2
Edward Lea	5/6
Johanna Waterous	6/6

Notes:
* Chair of Committee
1. Kath Cates became a member of the Group Audit Committee with effect from 1 September 2013.
2. Noel Harwerth ceased to be a member of the Group Audit Committee with effect from 31 March 2013.

The Committee has been assisted in carrying out its duties by a disclosure committee which meets quarterly, and is responsible for considering and identifying any disclosure matters in connection with the preparation of quarterly market releases containing material financial information. The Group Disclosure Committee is chaired by the Group General Counsel and Group Company Secretary and comprises members of senior management from finance, legal, investor relations, company secretarial and risk.

The Committee Chairman reports to the Board on the outcome of Committee meetings and the Board also receives the minutes of Committee meetings.

WHISTLEBLOWING

The Group has a whistleblowing policy, the effectiveness of which is reviewed annually by the Committee. The aim of the policy is to provide employees with a confidential forum to raise concerns in good faith where they either do not feel comfortable raising the matter with local management or are not satisfied with the local management response. A summary of all whistleblowing incidents, underlying investigations and actions undertaken is provided to the Committee on an annual basis.

Following the Committee's annual effectiveness review, the Company, led by the risk team and supported by both this Committee and the Board Risk Committee, is undertaking a review of the whistleblowing policy to ensure it continues to be readily accessible, communicated to, and understood by, employees across the Group.

FINANCIAL REPORTING AND SIGNIFICANT FINANCIAL ISSUES

The main matters and primary areas of judgement addressed and concluded on by the Committee were as follows:

Irish financial and claims irregularities:

- Following the discovery of accounting irregularities, the Committee maintained oversight of the internal and external investigations and ensured that the scope of the work and remediation was appropriate. The Committee agreed with management's proposal to extend the work of the external and internal auditors to provide assurance that the issues identified in Ireland did not extend to other parts of the Group. The Committee assessed their findings and determined that there was sufficient evidence to conclude that the issues were limited to the Irish entity and that the Irish results had been appropriately adjusted. For further information on the Irish issues see below.

Valuation of investment assets:

- In order to satisfy the Committee that investment assets are fairly stated, the Committee receives and reviews quarterly updates detailing the valuation together with the movement in the value of the investment portfolio. The Committee also reviews the quarterly Financial Controls Framework report, which specifically details the effectiveness of controls over investment accounting, and noted that no significant issues have arisen.

Valuation of insurance liabilities:

- The Committee has paid particular attention to ensuring that management has exercised appropriate judgement in estimating insurance contract liabilities including assessing the impact of claims trends and other influencing factors. The Committee also examined the appropriateness of discount rates on certain long-tail liabilities:
  - The Committee received and reviewed actuarial reserving reports which detail the basis for judgement in valuing insurance liabilities from management and an external review of the adequacy of reserves by Towers Watson. The Committee satisfied itself that management reflected available and reliable information when setting the reserves and that an appropriate margin was maintained. In respect of Irish reserves, the Committee concluded that once management became aware of the extent of the issues, the financial statements were adjusted appropriately
  - In addition, the Committee reviewed the rates used for discounting long-tail liabilities and determined that the current methodology adopted by management was in line with accounting standards and that management's recommendation to reduce UK rates from 5% to 4% was appropriate
  - The Committee received and considered detailed written and verbal reporting from the external auditor setting out their observations and conclusions in respect of the recorded insurance contract liabilities.

Valuation of goodwill and other intangibles:

- Significant acquisitions are reported to the Committee on a quarterly basis. In particular, the Committee focused on the purchase accounting relating to the 2012 acquisitions in Argentina and Canada and satisfied themselves that the acquisitions are appropriately reflected in the financial statements. At the year-end a comprehensive review of goodwill and intangibles was presented to the Committee, which detailed the main assumptions used to support the recoverability of each asset, together with sensitivities to key assumptions. The Committee considered in particular the carrying value of the software in the UK and agreed a write down reflecting the results of the business review and consequent change in use and life of some elements of the IT systems. The Committee received more detailed information on the goodwill attributed to the Irish business, and, after discussion and challenge, accepted the recommendation of management's judgement on its carrying value. Management also updated the Committee on the results of impairment reviews covering all material goodwill balances across the Group and the Committee supported assessment of management's goodwill impairments for Poland, Argentina, UK and Italy.

Employee benefits and retirement pension obligations:

- During the year the Committee received reports on the valuation of the pension schemes. As the pension schemes are sensitive to changes in key assumptions, a sub-group of the Committee reviewed the methodology and assumptions in detail and examined pension scheme valuation movements against other companies with similar schemes. In addition, any non standard changes in judgements are reviewed by the Committee and during the year the Committee assessed management's proposal to change the index used to derive the discount rate and concluded that the change was appropriate. The Committee was briefed by management on the impact of the revised standard IAS 19 Employee Benefits which came into effect on 1 January 2013, with particular reference to the treatment within the Consolidated Income Statement and the required restatement of the 2012 comparatives therein. Management also took the Committee through the impact of the introduction of IFRS 13 on the treatment of assets within the de-risked element of the pension scheme and concluded the disclosure was appropriate.

Valuation of deferred tax assets:

- The Committee reviewed the key assumptions and financial projections supporting the UK deferred tax asset. The Committee assessed the forecasts presented by management and in particular, the longer-term projections of profitability in light of the business review and the extrapolations used in the projections, and concluded that management's view was fair and reasonable.

Assessment of the Annual Report and Accounts:

- At the request of the Board, the Committee considered whether the 2013 Annual Report and Accounts were fair, balanced and understandable, and whether the disclosures were appropriate. To ensure that new accounting standards were understood and appropriately reflected in the financial statements, the Committee received quarterly updates of all relevant accounting standards that could impact the financial statements. In particular the impact of changes to IAS 19 Employee Benefits and IFRS 13 Fair Value Measurements were discussed. Taken as a whole, the Committee is satisfied that the Annual Report and Accounts is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

IRELAND

As announced in November 2013, PwC were appointed to undertake an independent review into the financial and regulatory reporting processes and controls within the Irish business, and Group oversight and controls of the Irish business. In order to further establish that the financial irregularities encountered in Ireland had not occurred elsewhere, the Board commissioned additional work to be undertaken by external auditor KPMG and by Group Internal Audit.

On 9 January 2014, the findings of these reviews were released to the market. The independent PwC review described the Group Control Framework as appropriate in terms of structure and design, for an international insurance group of this size and complexity, and elements of its design compare favourably across the market. The effectiveness of the framework, as it related to Ireland, was weakened due to independent controls not operating effectively.

The PwC report makes a number of recommendations including conducting a review into the verification of policy adherence, enhancing the clarity of control standards and effectiveness of local implementation, and improving the balance of trust, integrity and accountability with challenge and independent verification. The Board has confirmed that PwC's recommendations to enhance the operational effectiveness of Group-wide assurance processes and Irish financial controls have been adopted. A local programme of remediation has already begun and the Group continues to work with the Irish regulator, the Central Bank of Ireland.

These recommendations have already been incorporated into a refresh of assurance processes across the Group, many elements of which are already underway, and the Company will continue to engage with the PRA as this work progresses.

Additional assurance testing, at a materiality level set by reference to individual territories' balance sheets by our external auditor KPMG and Group Internal Audit, confirmed that the financial and claims irregularities were isolated to Ireland. The work undertaken by KPMG, which extended to 29 territories, was an early commencement and deepening of the work to support their year-end audit to test that certain balance sheet items, and income recognition, had not been inappropriately accounted for as occurred in Ireland. Having received their report the Board is satisfied that the issues investigated have not been repeated elsewhere in the Group. Group Internal Audit were commissioned to examine the effectiveness of controls over Large Loss Case Reserving. Their report, which covered 20 territories, concluded that the controls are adequate and effective and found no evidence of suppression of, or delays in adjusting, large claims reserves.

FINANCIAL CONTROL FRAMEWORK

The Financial Control Framework aims to deliver a consistent approach to finance-related controls across the Group that is fit for purpose for all regions, embedding a control culture that strengthens the Group's finance environment by ensuring that financial processes are managed effectively in order to mitigate the risk of financial misstatement. The process involves documenting and testing the operation of key financial controls, thereby providing an acceptable degree of assurance around the financial control environment.

The Committee received quarterly reports focusing on the assessment and testing of controls, including notification of any system or control weaknesses, or breaches in the period and the action taken as a result, allowing the Committee to address deficiencies and take action as appropriate.

The effectiveness review of the Financial Control Framework referred to above has been extended to take into account the lessons learned from Ireland.

INTERNAL CONTROL

The Board has overall responsibility for the effectiveness of internal control systems, with the implementation and maintenance being delegated to the Executive Directors and senior management.

The Committee reviews the performance of internal control systems quarterly, with an annual review undertaken by the Board. This system includes governance, financial controls, the risk management framework and processes to deliver regulatory and compliance requirements. In addition the Board, through the Board Risk Committee, considers reports from risk specialists across the Group and reviews Group-level risk management information. The systems are designed to identify and mitigate, rather than eliminate, the potential risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material financial misstatement or loss.

In February 2014, the Committee and the Board reviewed the systems of internal control in operation during 2013. As referred to above and on page 16, the Irish business had suffered a significant control failure which was investigated by a number of independent external and internal reviews. The results of these reviews were presented to the Board and disclosed to shareholders on 9 January 2014. The conclusion reached by the Board in conjunction with management on the basis of the reviews was that the issues identified in Ireland were isolated to that country and that no other significant failings or weaknesses in the Group's control environment were identified.

The Committee received regular reports from the Group Chief Auditor on the integrity of the control environment, and from the external auditor based on its audit work. Findings and recommendations arising from internal and external audit work are discussed by the Committee together with any control improvements recommended. These are also discussed between the businesses. During the year the Committee discussed the reliance of the business on effective IT systems and agreed changes to provide additional oversight to some IT testing processes, improved training for staff and better documentation standards.

Business managers across the Group complete a quarterly self-certification process which requires them to confirm the adequacy of controls and their compliance with Company policies, local laws, rules and regulations.

The reporting framework delivers information to enable the systems of internal control to be monitored and their effectiveness to be reviewed as required by the Code. The Board considers that an ongoing process for identifying, evaluating and managing the significant risks faced by the Group has been in place during 2013 and up to the date of approval of the Annual Report and Accounts. This process accords with the latest Turnbull Guidance.

GROUP INTERNAL AUDIT

The Committee oversees and reviews the activities and effectiveness of Group Internal Audit (GIA) who assist in accomplishing the Group's objectives by evaluating the Group's risk management, control and governance processes, and assist with improving their effectiveness. Their primary role is to help the Board and Executive Management to protect the assets, reputation and sustainability of the organisation. The scope of GIA is unrestricted.

A comprehensive, risk-based audit plan is prepared by GIA on an annual basis, taking into consideration the key strategic and emerging risks facing the Group. Regular updates were provided to the Committee on the progress of the 2013 plan, and in December the 2014 plan was reviewed, challenged and approved by the Committee. The Committee received quarterly reports from GIA on their assessment of the internal control environment of the Group and management were required to present to the Committee their views on the key risks and issues identified by GIA, along with the related remediation plans.

The Committee has reviewed a detailed assessment against the requirements of the new guidelines issued by the Institute of Internal Auditors titled 'Effective Internal Audit in the Financial Services Sector' and actions have been initiated to ensure compliance by 2015.

During the year the Committee received presentations from the regional chief auditors, enabling a more detailed view of the activities performed in each region, and providing additional context to business risks.

EXTERNAL AUDITOR

In 2013, the Board recommended to shareholders the appointment of KPMG LLP as external auditor to the Company. This followed a rigorous tender process, overseen and directed by the Committee in which five audit firms were invited to tender.

The process included provision of detailed information, meetings and presentations to both management and the Committee. There were 29 members of management involved in meeting with the tendering firms and all evaluated the firms against selection criteria covering industry knowledge, people, audit approach, proactivity, organisational fit and coverage, customer focus and fees. Of the firms who tendered, two were invited to make formal presentations to the Committee. These presentations took the form of meetings at which proposed audit strategy including planning, scope and risk identification was presented, discussed and challenged. Following those meetings, the Committee recommended to the Board that the appointment of KPMG LLP be recommended to shareholders. A resolution was put to shareholders and passed at the 2013 AGM.

The Committee has provided clear guidance to KPMG on the Committee's expectations of them as part of their role as auditor: that the Committee, not management, is their client; that they are expected to challenge appropriately; that they are expected to raise issues and concerns with the Committee as soon as is appropriate; and on material matters they are expected to indicate their agreement to the position taken by management, or to explain why they do not, and the implications.

It is the intention of the Committee that the Company will adhere to the Code requirement of tendering for the external auditor at least every 10 years.

The Committee has an embedded Non-Audit Services Policy to assist with maintaining the independence of the external auditor and its personnel. The policy was reviewed early in 2013 and revised to permit only specifically defined services considered to be audit related to be performed by the auditor, and that all non-audit services must be approved by the Committee. A limit in value of non-audit fees incurred by the auditor, to 25% of total audit fees for a financial year, has been introduced. In exceptional circumstances the auditor could be considered for additional services where there is an overwhelming business rationale, but only with Board approval. A summary of the policy is available on the Company's website at www.rsagroup.com/termsofreference.

The Committee receives and reviews a report on the non-audit services and spend quarterly, together with information on fees agreed and billed by the other major accounting firms. During the year KPMG provided non-audit services totalling £2.2m, of which £1.3m related to the extended audit work following the identification of financial and claims irregularities in Ireland. This additional work was approved by the Board in line with the Non-Audit Services Policy.

The Company undertakes a thorough review of the effectiveness of the external auditor on an annual basis, usually on completion of the audit process. In the year under review, the process has been amended to accommodate the fact that this is the first year of audit by KPMG and has in part been concurrent with the audit. The review has covered the perceived quality, effectiveness, objectivity and independence of the external auditor together with their compliance with the Committee's guidance referred to above. It was conducted by seeking the views of the Committee, senior management and members of the Group financial reporting team, and asking for opinions against set criteria and the performance of the external auditor against those criteria. On the basis of the review, the Committee is satisfied with the work of KPMG and that they are objective and independent. Accordingly, the Committee has recommended to the Board that a resolution be put to the 2014 AGM for the re-appointment of KPMG LLP as external auditor, and the Board has accepted this recommendation.

There are no contractual obligations restricting the Company's choice of external auditor and there is no limitation of liability in the terms of the appointment of KPMG LLP as auditor to the Company.

Alastair WS Barbour
FCA, Non-Executive Director and Chairman
of Group Audit Committee
26 February 2014

DIRECTORS' REMUNERATION REPORT

COMMITTEE CHAIRMAN'S LETTER

INDEX TO THE REPORT:

Dear Shareholder,

As Chairman of the Group Remuneration Committee of the Board, I present this Report for your approval covering the year to 31 December 2013.

This has been a very disappointing year. Overall, financial performance has been poor, despite good underlying growth occurring across many parts of the business. Group Combined Operating Ratio for the year is 99.6%, Net Written Premium is £8,664m, with the Group reporting a pre-tax loss of £244m. Consequently, I can advise that:

- Salaries will remain unchanged for the Executive Directors
- No bonuses will be awarded to the Executive Directors for 2013, which affects the Group Chief Financial Officer and the Chief Executive, UK and Western Europe
- No performance-based long-term incentive plan (LTIP) awards will vest arising from the 2011–13 cycle.

The 'single figure' tables on page 82 show the extent to which actual remuneration levels have reduced in 2013 from 2012.

In recognition of how challenging 2013 has been, many employees at all levels will not receive a salary increase this year, especially those based in the UK and Ireland. In addition, the total budget for 2013 employee bonus awards across the Group has reduced significantly.

It has been a year of unforeseen events. Simon Lee resigned as the Group Chief Executive on 12 December 2013 and left with immediate effect. As has been previously announced, he was paid strictly in accordance with his employment contract, therefore, he will not receive a bonus for 2013 and all unvested and unexercised LTIP awards have lapsed. The Board requested that Mr Lee did not serve his contractual 12 months' notice period and, instead, he is being paid in lieu of this, covering the equivalent of his base salary only. The payments are made to him in monthly instalments, set off against the value of any remuneration he may receive for future employment or engagement before the expiry of this 12 month period. Mr Lee has not received any ex-gratia compensation for loss of office. The details of Mr Lee's total remuneration for 2013 are noted on page 82.

In the intervening period following Mr Lee's departure, Martin Scicluna took on the role of Executive Chairman. At his request, his remuneration remained unchanged.

The Board is pleased to have appointed Stephen Hester on 5 February 2014, to replace Simon Lee. His annual salary is £950,000, to be first reviewed in April 2015. In addition, Mr Hester receives a range of employment benefits including an annual company car allowance of £20,000 and private medical cover. As Mr Hester has taken out enhanced pension protection, he is paid a supplement equal to 30% of his base salary in lieu of joining the RSA stakeholder pension plan. His notice period is 12 months.

Mr Hester did not receive any sign-on payments and, since he had already left his previous employer, no compensatory awards were made.

In terms of incentives, Mr Hester has an on-target bonus opportunity of 80% of salary, rising to 160% of salary at maximum, of which half must be deferred into RSA shares for three years. In recognition of Mr Hester's experience, the scale of the challenge ahead and also to give him the opportunity to build his shareholding in RSA, his 2014 LTIP grant will be for 300% of salary, at maximum vesting. This is contingent, however, on shareholder approval of the new LTIP at the AGM on 9 May 2014. Consistent with the Remuneration Policy noted on pages 74 to 75, his future LTIP grants will be made at no more than 230% of salary, which is the Group's usual level of award for Executive Directors. No matching share grants will be made to enhance these LTIP awards, as this practice has now ceased.

Mr Hester will be expected to hold all shares issued via the new LTIP for a further two-year period once they have vested. He is subject to a required shareholding of 300% of salary, to be acquired over a five-year period, as set out in the policy summary on pages 74 to 75.

Turning to the remuneration review, in the 2012 Directors' Remuneration Report, I advised that the Committee would be continuing to refine the Group's remuneration policy and framework. This review has concluded and some important changes have been agreed for implementation in 2014. These changes support the execution of both operational plans and the business strategy to strengthen the Group's performance over the short and long term. In summary, the changes that the Committee has agreed are:

- The Executive Directors' Annual Bonus Plan and the LTIP are focused on improving results for the sole purpose of building sustainable shareholder value. The incentive framework will apply to other senior leaders across the Group.
- The Annual Bonus Plan and the LTIP will actively align management's and shareholders' interests by assessing: profitable growth, underwriting performance, shareholder returns, balance sheet strength, capital strength, expense ratio and management actions, which includes a focus on risk. Some of the performance metrics will be assessed individually, while others will be included within a specific Business Review Scorecard underpinning the execution of the Group's strategy.
- Executive Directors will defer 50% of their bonus awards into RSA shares for three years, which doubles the previous level of compulsory deferral. Voluntary bonus deferral now ceases.
- A new LTIP has been designed to be straight-forward for employees, shareholders and regulators to understand, therefore matching share awards will no longer be granted.
- The normal maximum LTIP award opportunity reduces from 309% of salary to 230% of salary. To allow the Committee additional headroom to grant performance-related awards for appointment purposes to gain high calibre candidates, or in other highly exceptional circumstances, a ceiling of 400% of salary will be in place. This headroom will not be used routinely, and will be by exception only.
- Through the new LTIP, Executive Directors will retain their vested shares for two years; they can only sell sufficient to cover statutory deductions during this retention period.
- The level of required shareholding for the Group Chief Executive rises from 200% to 300% of salary.
- The Clawback Policy has been strengthened to cover a wider range of sanctions and scenarios where incentive awards can be reduced fully or partially, via malus adjustment.

The Remuneration Policy sets out the context for these changes on pages 71 to 79. The implementation of the Group's remuneration approach in 2013 is given on pages 80 to 89. Specifically, how the Remuneration Policy is being implemented in 2014 is noted on pages 90 to 92.

During the year, the Committee engaged the Group's 20 largest shareholders and the ABI, NAPF and ISS on remuneration changes, and it took on board their feedback on matters such as performance conditions and remuneration simplification to achieve a remuneration structure which is balanced and appropriate, has regard to current best practice and, above all, is intended to promote growth in shareholder value for the long-term benefit of RSA. Equally, risk management is woven even closer into the setting and managing of remuneration policy, with key proposals and changes being briefed to the Board Risk Committee.

This has been the most exceptional of years, and the Committee has responded accordingly to ensure that the remuneration arrangements of the Group are appropriate, both now and into the future. The Board looks forward to your support for this Report.

Hugh S Mitchell
Non-Executive Director and Chairman of Group Remuneration Committee
26 February 2014

This Report is prepared in accordance with the amended requirements of Schedule 8 of SI 2008/410 The Large and Medium-sized Companies and Groups (Account and Reports) Regulations 2008, which came into effect for periods ending on or after 30 September 2013. The Policy has been developed taking into account the principles of the UK Corporate Governance Code 2012.

SECTION 1
REMUNERATION POLICY REPORT

1. INTRODUCTION

In this section of the Directors' Remuneration Report, the principles and policies are described that will be used to set and manage the Directors' remuneration over the next three years, subject to shareholder approval. The Group Remuneration Committee considers that this report will be effective from the date it is approved by shareholders. However, it has been adhering to many of the revised best practice components within this Report since 1 January 2014.

Specifically, this Remuneration Policy Report covers:

- How decisions on directors' remuneration will be made at RSA, and the remuneration philosophy and strategy which underpin these decisions
- How remuneration packages will be structured and managed for current, newly-appointed and departing directors
- What impact business and individual performance will have on the potential value of the Executive Directors' remuneration
- What key contractual terms will apply to current and newly-appointed directors
- How RSA has engaged with its shareholders and employees on the subject of executive remuneration during 2013, and its plans for continuing to engage with them in the future.

2. RSA'S REMUNERATION PHILOSOPHY AND STRATEGY

RSA's remuneration philosophy and strategy are directly informed by the business strategy, which is set out in the Strategic Report on pages 8 to 43 of this Report.

The remuneration principles the Committee follows are:

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

The next pages of this Report describe how these remuneration principles are applied in practice.

3. RSA'S REMUNERATION POLICY FOR EXECUTIVE DIRECTORS

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

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

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

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

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

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

Annual Bonus Plan (variable remuneration) Supports RSA's short-term objectives. Targets are directly linked to the operational plan and reflect RSA's priority to create shareholder value through sustained growth and profitability, based on its risk profiles. Deferral into shares creates shareholder alignment.	• Overall bonus opportunity is set at a level to be market competitive. Awards are calculated against stretching annual financial and non-financial targets, as well as the performance of the individual executive. Only superior performance will result in a bonus award which is above target. • Fifty per cent of the bonus will be awarded in cash and the remainder will be deferred into a share award for a period of three years. Dividends or equivalents accrue on the deferred shares, and are awarded at the end of the deferral period. The deferred bonus shares are granted under the rules of the LTIP as a conditional award. • Under RSA's Clawback Policy, cash and deferred share awards arising from the Annual Bonus Plan can be reduced or forfeited prior to receipt under a range of circumstances and other sanctions can apply. The policy is noted in detail on page 85. The Committee reviews the policy annually and may amend or update it, as required. • The Executive Directors' maximum bonus opportunity is set having regard to the market median bonus opportunity of its benchmark peer groups. • Committee can exercise discretion to change the bonus measures, how they are weighted, calculated and targeted. It can also change the Directors' bonus awards (both upwards and downwards) once the measures have been tested, provided this is appropriate and in shareholders' interests. The Committee can make such amendments as are necessary to respond to regulatory, legal or accounting requirements. Shareholders will be notified if this has been carried out by disclosure in the relevant Directors' Remuneration Report.

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

Opportunity and performance conditions	Key policy changes from 2013
• Performance conditions do not apply, but business and individual performance may be considered when conducting the review process. Although salaries are reviewed annually, there is no automatic right for any Director to receive a salary increase. • Other than exceptional circumstances such as a role change, salary increases will not exceed the level of increases applied to other RSA employees. • The Executive Directors' salaries effective 1 April 2014 are noted on page 90.	None
• Performance conditions do not apply. • Benefits are valued and determined with reference to the benchmarking peer groups and other surveys reviewed by the Remuneration Committee. Details of the benefits received by the Executive Directors for 2013 are provided on pages 82 to 83.	None
• Performance conditions do not apply. • No Executive Director will receive a pension benefit in excess of 30% of salary. • The Executive Directors' pension benefits for 2013 are detailed on pages 82 to 83.	None
• Normal bonus opportunity is 16% of salary at threshold, rising to 80% of salary for on-target performance and 160% of salary at maximum. Additional bonus headroom of up to a further 40% of salary may be available, at the Committee's discretion, to recognise highly exceptional circumstances. Full disclosure will be given if an increased bonus opportunity is applied. • Performance is measured over one financial year, according to a range of metrics, some of which can be assessed on a scorecard basis, typically including: growth in earnings and profitability, underwriting performance, risk management, expense ratio and cost savings, capital strength, balance sheet strength, customer and employee engagement, and objectives which are personal to the executive. All measures operate independently. Around 70% of the Annual Bonus Plan is weighted according to financial metrics. The performance conditions and targets which were used to inform the 2013 bonus awards are detailed on page 83. • Group Executives are targeted against performance of the entire Group. Executive Directors who have a regional accountability will be targeted against the performance of both the Group and their business areas. • Targets are set with reference to the Group's operational plan. • No additional performance conditions apply to the deferred bonus shares once they are granted.	• Bonus plan decoupled from the LTIP. • Voluntary bonus deferral ceases. • Compulsory deferral rises from 25% to 50% of the total bonus. • Bonus measures changed to give greater strategic alignment and capture operational priorities. • Clawback Policy strengthened. • Leaver treatment modified regarding deferred bonuses. • Changes are noted on pages 90 to 91.

3. RSA'S REMUNERATION POLICY FOR EXECUTIVE DIRECTORS – CONTINUED

Purpose and Strategic Link	Policy for 2014 onwards
Long-term Incentive Plan (LTIP) (variable remuneration) Supports RSA's long-term strategy. Targets reflect RSA's priority to create shareholder value through sustained earnings and share price growth.	• LTIP grants are made annually to a range of senior employees across the Group. For Executive Directors, awards are made in the form of performance shares which vest subject to performance conditions. The LTIP is also used as a vehicle for granting restricted shares which, for an Executive Director would only be used to satisfy a buy-out upon appointment and shares awarded through compulsory bonus deferral. • Performance conditions are reviewed annually. Dividends or equivalents accrue during the performance period and are added to the shares that vest. • A two-year retention period will apply to the Executive Directors' vested shares prohibiting their sale (excluding any sold to satisfy statutory deductions). This policy will cover performance-based awards granted through the LTIP and it will first be implemented for shares vesting in 2017 (i.e. the 2014 grant). The retention period only applies while the Director remains in employment. • Under RSA's Clawback Policy, unvested share awards granted from 2013 onwards can be subject to forfeiture (partial or full) covering a range of circumstances and other sanctions can apply. The policy is noted in detail on page 85. The Committee reviews the policy annually and may amend or update it, as required. • The Executive Directors' maximum award opportunity is set having regard to the market median grant within the benchmark peer groups. • Committee can act within the parameters of the Plan's rules as approved by shareholders and its performance conditions, covering matters such as the measures, calculation methods, performance period, eligibility rules, and general Plan mechanics. The purpose of discretion is to enable the LTIP to be appropriately administered under both normal and exceptional circumstances, e.g. corporate or capital events affecting the Group or a significant number of employees. In addition, the Committee can make such amendments as may be necessary to respond to legal, accounting or regulatory changes. Awards can be reduced or otherwise amended, provided the action is fair and justifiable, for example, to guard against a windfall award or the converse generated by an accounting treatment, to put employees in a neutral position following a capital event. Specifically, under a change of control, performance conditions are tested and awards can vest earlier than scheduled, pro-rated for time and performance, however, the Committee can determine whether a pro-ration for time is applied to other forms of award not subject to performance conditions.

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

Legacy incentives (variable remuneration)	• The Executive Directors will continue to retain any awards granted under RSA's 2006 Long-term Incentive Plan including deferred share awards. Subject to the 2014 Performance Share Plan being approved by shareholders, no further grants will be made under the 2006 Plan. The Committee can exercise the same discretion as noted in the LTIP section above, as appropriate.
Required shareholding Ensures alignment with shareholders' interests and enables the Director to build a stake in the business.	• Executive Directors must acquire shares in RSA and hold them according to specified levels, expressed as a salary multiple. • Executives have five years in which to build up their holding, commencing from the first date an unconditional share award is made to them as a Director. No shares are to be sold until the holding level is reached, except where required to cover statutory deductions. • The shares which count towards the holding are those held either in their own right or that of immediate family members, and any awarded by RSA which cease to be bound by any performance or service conditions. Vested LTIP shares form part of the holding during the two-year retention period. • For the purpose of reporting to shareholders, the holding levels will be determined using the mid-market closing price of an RSA ordinary share and executives' annual gross basic salaries, both as at 31 December in the reporting year. • The Committee can exercise discretion to temporarily waive or reduce the holding requirement or allow shares to be sold in exceptional business or personal circumstances (e.g. ill-health, divorce, financial hardship).

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

Opportunity and performance conditions	Key policy changes from 2013
• Normal threshold LTIP opportunity is 58% of salary, rising to 144% of salary for on-target performance and 230% of salary at maximum. • For recruitment purposes, or in highly exceptional circumstances, such as for retention, the Committee may agree to a conditional performance-related award being made up to an additional 170% of salary. This would be considered a 'one-off' award. Where an exceptional award is made, full disclosure will be given on the rationale. • Conditional awards are determined based on the Director's salary as at the grant date, using the mid-market closing price of an RSA ordinary share, as determined by the Committee in accordance with the Plan's rules. • The LTIP is intended to support the delivery of the business strategy over a three-year time horizon, and it will therefore include at least two metrics which, typically, will be directly linked to value creation through performance of the Group's share price, earnings/profitability, capital strength and balance-sheet strength. The measures can be assessed on an absolute and/or a relative basis. The metrics can be assessed through a scorecard. The performance conditions are not subject to re-testing. • The performance period will normally be at least three years for all measures. By exception, the relative TSR metric will be assessed over circa 34 months for the 2014 grant only. • The performance conditions and targets that will apply to the 2014 grant, subject to the new LTIP gaining shareholder approval, are detailed on page 91. • Shareholders will be consulted if changes to the measures are proposed by the Committee.	• New LTIP designed to replace 2006 Plan, for shareholder approval at 2014 AGM. • Normal maximum opportunity reduces from 309% to 230% of salary. Exceptional maximum performance-linked grant is 400% of salary. • Ceased granting Matching Shares. • Performance conditions revised and include a scorecard aligned to the business review. • Two-year retention period. • Clawback Policy strengthened. • Change in relative TSR measurement period for 2014 grant cycle. • Changes noted on pages 90 to 91.
• Performance conditions for any outstanding awards are Group underlying Return on Equity and relative Total Shareholder Return as noted in the Directors' Remuneration Report for 2012 and in this Report on page 85. There is no re-testing of the performance conditions.	None
• Performance conditions do not apply. • With effect from 1 January 2014, the shareholding levels to be reached are: Group Chief Executive: 300% of salary Other Executive Directors: 150% of salary The Executive Directors' shareholding levels as at 31 December 2013 are noted on page 86. • The shareholding levels were determined with reference to the practice across the benchmark peer groups.	• Shareholding level increased for Group Chief Executive from 200% to 300% of salary, as noted on page 92.

3. RSA'S REMUNERATION POLICY FOR EXECUTIVE DIRECTORS – CONTINUED

Purpose and Strategic Link	Policy for 2014 onwards
Appointment treatment Ensures a consistent and transparent approach is taken when appointing executives to the Board, in line with best practice.	• Appointment salaries are set using the same approach as for the Directors' salary reviews, as noted on pages 72 to 73 above. The Committee can exercise discretion on the timing and level of salary reviews for newly appointed Directors reflecting the individual's development and performance in the role. • Benefits, pension and contractual terms will be the same as those offered to current Executive Directors, but the Committee may exercise judgement to flex the package to accommodate any specific terms bespoke to the individual, e.g. related to health, annual leave, pension or insurance benefits. • No Director will be appointed on a notice period exceeding 12 months. • Where the Director is an internal promotion within the Group, he/she may be permitted to retain any legacy benefits or terms at the Committee's discretion. Continuity of service with the Group will be maintained. • Where the Director is an external appointment, the Committee may agree to a compensatory package reflecting incentives or benefits forfeited upon resignation. This will only be permitted on receipt of reasonable evidence of loss. There will be no cash sign-on payments where there is no loss. • Typically, the form of award that is being forfeited (e.g. cash or shares) will be replaced by the same form of award at RSA. Share awards, if they are subject to performance conditions, will generally be compensated by performance share grants in the LTIP. A fair value approach will be applied to determine the value of any compensatory share awards. • As a point of principle, restricted shares will only be used where a performance condition has been achieved or is nearing testing and there is a reasonable expectation of the vesting level. Cash bonuses may be bought out with restricted shares in order to give the Director an early 'stake' in RSA. • Committee can exercise discretion on how to settle any buyout and over what time period to phase any compensatory awards. It will have regard to the performance and vesting periods of the Director's forfeited incentives when determining this.

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

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

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

4. RSA'S REMUNERATION POLICY FOR NON-EXECUTIVE DIRECTORS

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

Opportunity and performance conditions	Key policy changes from 2013
• If the Director is entered into an RSA LTIP and made an award of performance shares, these will be subject to the same performance conditions and vesting date as applies to other plan participants. • Under normal circumstances, a new Executive Director will be eligible for incentive awards in line with the usual policy which provides for a maximum bonus of 160% of salary and LTIP award of 230% of salary. However, in exceptional circumstances, a higher bonus opportunity of up to 200% of salary may be agreed and a performance-related LTIP award may be approved by the Committee in the Director's first year of service up to the limit of 400% of salary. • Restricted shares may be issued and, if so, these will not carry any financial performance conditions, only continued service with the Group or such other conditions as the Committee may agree. Restricted shares will only be awarded to an Executive Director in the case of compensation for loss upon recruitment. • The Committee may agree to reduce the value of the compensatory award below the anticipated or actual loss value if the compensation is paid at an advanced date (i.e. early settlement). • Any compensatory award using cash or restricted shares will always carry a service condition and an appropriate repayment schedule to protect shareholders' interests.	• Policy adheres to previous internal practice, except that restricted shares have not been utilised to satisfy a compensatory award at Executive Director level.

• Where good leavers receive pro-rated bonus or LTIP awards, performance is tested in line with the normal performance timetable. The Committee can, however, arrange for the performance conditions to be tested early and for awards to vest sooner than the scheduled date in cases of death in service, medical severance (with discretion) or under a change of control. • Based on the leaving circumstances and having regard of shareholders' interests, the Committee can exercise discretion to reduce or lapse awards or enable a proportion of awards to be received but only in highly exceptional circumstances and where appropriate. Shareholders will be informed if discretion is applied, and details will be provided wherever possible. • There are no pre-determined special provisions for Directors with regard to compensation for loss of office. Compensation is based on what would be earned by way of salary and other contractual benefits including pension, over the notice period. In the normal course of events, reasonable professional fees may be paid in relation to a Director's employment termination. • No payment or compensation for loss of office made to any departing Director will be disclosed if it is less than £10,000 gross.	• Compulsory deferred bonus shares granted from 2014 onwards will only be forfeited for executives where the Clawback Policy is implemented or for other reasons determined by the Committee. In 2013, compulsory deferred shares were only permitted to be retained for executives whose employment ended for reasons of ill-health, redundancy, death or retirement.

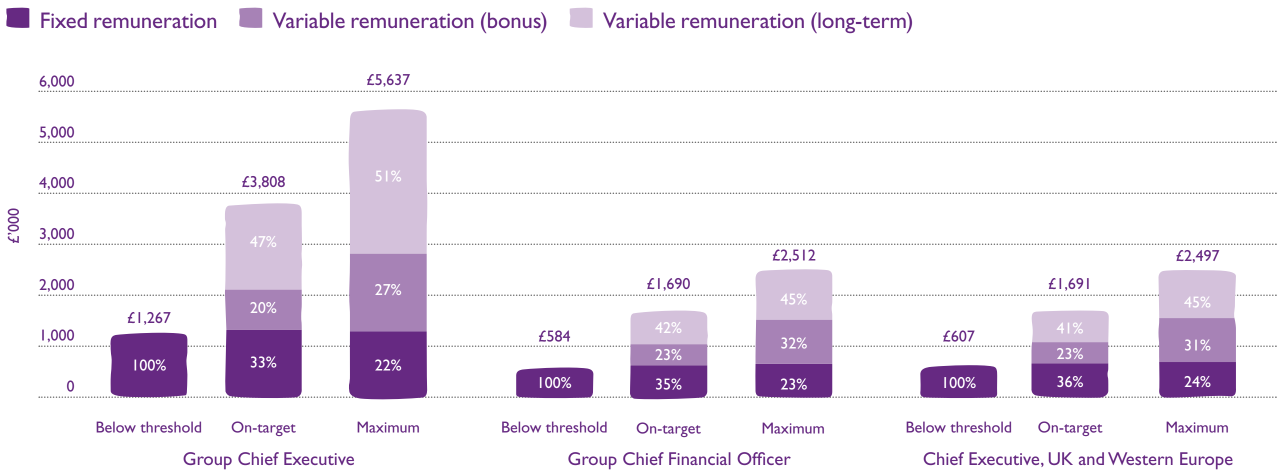
Opportunity and performance conditions	Key policy changes from 2013
• Performance conditions do not apply. • With exception to the Chairman, all Non-Executive Directors receive a base fee, further fees are then paid to reflect membership of more than one committee and for chairing a committee. A separate fee is paid to the Senior Independent Director. The Chairman receives a fee for his role and this is set by the Committee. • Base fees (including the Chairman's fee) will be kept within the aggregate limit stated in the Group's Articles of Association. • Details of the Chairman's fee and the Non-Executive Directors' fees earned for 2013 are noted on page 82.	• Fees increased on 1 July 2013, and details are noted on page 92.
• Performance conditions do not apply. • Contractual terms are noted on page 79.	None

5. PAYING FOR PERFORMANCE

RSA has a pay-for-performance culture across the Group, which means that remuneration is linked closely to the performance of both the business and the individual. A significant proportion of the Executive Directors' remuneration is variable, i.e. it is subject to performance conditions and is therefore 'at risk'. The Committee's aim is that superior levels of remuneration will only be paid in return for delivering superior levels of performance.

The following charts show how much the Executive Directors could earn for the 2014 financial year based on the application of the Remuneration Policy (described on pages 72 to 77). Their remuneration potential changes according to varying levels of performance achievement. The assumptions that were used to prepare these charts are noted below. Also below are the timings of when each component of the remuneration package would be physically delivered to the executives.

ILLUSTRATIONS OF THE APPLICATION OF THE REMUNERATION POLICY



Notes:
1. The 'below threshold' scenario shows the minimum remuneration receivable. For the Group Chief Executive, it includes annual base salary, benefits and pension valued in accordance with the terms of Stephen Hester's appointment. For the Group Chief Financial Officer and Chief Executive, UK and Western Europe, it includes the value of annual base salary and pension as at 1 January 2014 and the value of benefits in the single total figure of remuneration for 2013. No bonus is awarded and no LTIP vesting occurs for below threshold performance.
2. The 'on-target' scenario shows the remuneration receivable with a bonus award at half of the maximum opportunity (i.e. 80% of salary) and LTIP vesting at 62.5% (i.e. half-way between threshold (25% vesting) and maximum (100% vesting)). The LTIP maximum award level is taken to be 300% of salary for the Group Chief Executive which reflects Stephen Hester's appointment commitment for the 2014 grant only, and 230% of salary for the Group Chief Financial Officer and Chief Executive, UK and Western Europe.
3. The 'maximum' scenario shows the remuneration receivable with both the Annual Bonus Plan and the LTIP paying out in full (i.e. 160% of salary and 300%/230% of salary, respectively).

The table below shows when each component of the Executive Directors' remuneration package (as noted in the charts above) would be delivered to them once any performance conditions or other restrictions have ended (as noted by the shading). These each relate to the 2014 financial year and, in the case of the LTIP, for awards vesting in 2017.

	Financial Year					
Remuneration Package Component	2014	2015	2016	2017	2018	2019
Base salary						
Benefits						
Pension contribution/cash allowance						
Annual bonus: cash award						
Annual bonus: deferred share award		■			◆	
LTIP: performance share award	■			◆		

■ Year of share award granting ◆ Year of share award vesting Year when any restrictions have ended

6. CONTRACTUAL TERMS

Executive Directors

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

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

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

Executive Directors may hold one external non-executive position of a FTSE100 company provided this does not give rise to any conflict of interest, with the approval of the Nomination Committee. If there is any remuneration arising from this role, the individual can retain it.

The date when each Executive Director was appointed to the Board is shown in the table on page 93. Contracts are available for inspection by shareholders at the Company's registered office.

Non-Executive Directors

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

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

The dates when each Non-Executive Director was appointed to the Board and the expiry dates of their current terms of office are shown in the table on page 93. Details of the Non-Executive Directors' fees are noted on page 92. Appointment letters are available for inspection by shareholders at the Company's registered office.

7. ENGAGEMENT ON DIRECTORS' REMUNERATION

RSA's shareholders

As previously noted in the shareholder letter on pages 69 to 70, the Committee is dedicated to maintaining an active and open dialogue with RSA's shareholders. It believes that a transparent approach on all matters connected to boardroom pay is essential for building and maintaining trust and integrity. Similarly, the Committee values constructive feedback, regardless of whether it is from an institutional investor or a retail shareholder.

During 2013, the Committee actively engaged its leading shareholders on changes it was considering arising from the remuneration review. The Committee Chairman wrote to the Company's 20 largest shareholders and the UK's leading corporate governance bodies on the structure of its incentive programmes and the directors' shareholding requirements. This communication continued the dialogue the Committee had begun the previous year, following a series of changes it had made to the Group's remuneration framework beginning in 2011. The Committee reflected views given on its proposals as noted on page 70.

Also during the year, the Committee Chairman and Chairman met with representatives from several key institutional investors to discuss remuneration. Shareholder meetings will continue to be held for as long as all parties feel they are beneficial; this is aside of the AGM, analyst briefings and shareholder 'road shows' and meetings.

RSA's employees

The Committee is proud of RSA's world-class levels of employee engagement, which are measured through independently-verified surveys and reports across the Group. Information is exchanged between employees, the Board and RSA's leaders in a number of ways, some via formal consultation forums. The European Works Council (EWC) is one such forum.

As the Executive Directors are UK-based employees, the Group Reward Director met with the EWC during 2013 to engage it specifically on boardroom remuneration. She explained how the Executive Directors' packages are structured, the factors that influence them and the role of the Remuneration Committee. Finally, the EWC heard how the directors' remuneration principles are used to inform how remuneration is approached across the Group, even though the actual detail may differ from country to country. Members of the EWC welcomed the insight shared with them, and the session enabled a free flowing exchange of views. Further briefings will be held to maintain the EWC's knowledge, gain mutual insight and enable further input on reward matters.

SECTION 2

ANNUAL REPORT ON REMUNERATION

1. INTRODUCTION

This section of the Directors' Remuneration Report describes the way in which remuneration decisions have been carried out in the financial year ended 31 December 2013. There is a statement on how the Group intends to implement its Remuneration Policy in 2014 on pages 90 to 92. Some of the information contained in this section of the report is subject to audit and, where this is the case, it is noted.

2. INFORMATION ABOUT THE GROUP REMUNERATION COMMITTEE

Purpose of the Committee

The Group Remuneration Committee (Committee) is a formal committee of the Board, accountable to shareholders through its policies and actions. It updates shareholders via the publication of the Directors' Remuneration Report. At the AGM on 9 May 2014, the Policy section of this Report on pages 71 to 79 will be submitted for a binding shareholder vote, while the Annual Report section on these pages, 80 to 93, will be put to an advisory vote.

The Committee determines the remuneration and contractual terms for the Executive Directors and the Executive Team (whose profiles are contained on pages 46 to 49. It also approves the fee and contractual terms of the Chairman (whose profile is on page 47).

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

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

Committee members

The Committee comprises a number of independent Non-Executive Directors who are called upon to exercise judgement on the setting and management of executive remuneration. The Committee's members in 2013 are detailed in the table below. The number of meetings each Director attended is shown as a proportion of the total number of meetings held during the period of the year in which they were a Committee member.

Committee member	Meetings in 2013 (5)
Edward Lea[1]	1/2
Malcolm Le May	5/5
Hugh Mitchell*	5/5
Jos Streppel	5/5
Johanna Waterous[2]	3/3

Notes:
* Chair of Committee
1. Edward Lea was a member of the Committee until 1 March 2013.
2. Johanna Waterous was appointed to the Committee effective 1 March 2013.

Committee attendees

The Chairman, Group Chief Executive and other senior executives attend Committee meetings by invitation to advise on Group strategy, performance, HR and remuneration policies and practices. However, none of these executives have a right to attend and are not present if their own remuneration is being discussed. The table below notes the Committee attendees during 2013.

Committee attendee	Position
Martin Scicluna	Chairman
Derek Walsh	Group General Counsel & Group Company Secretary (Secretary to the Committee)
Simon Lee[1]	Group Chief Executive
Vanessa Evans	Group Human Resources Director
Leigh Harrison	Group Reward Director

Note:
1. Simon Lee resigned from the Board and his employment ended effective 12 December 2013. He attended Committee meetings prior to this date.

Committee advisors

PwC was formally appointed by the Committee, as its independent advisor in September 2012. It was selected following a market tender exercise. During 2013, PwC also provided wide-ranging advice and consultancy services across RSA globally on matters including business processes, IT, internal audit, corporate social responsibility, direct and indirect tax and governance. PwC is a member of the Remuneration Consultants' Group and a signatory to its Code of Conduct. In addition, the Committee has satisfied itself that the advice it receives is objective and independent as the firm has confirmed there are no conflicts of interests arising between it, its advisors and RSA. The fee paid for services to the Committee in the year was £104,000 excluding VAT, based on a fixed fee for a defined scope of work, and hourly rates for specific projects.

Committee meetings held in 2013

In 2013, the Committee met on five occasions and the table below summarises the matters it discussed.

Meeting	Regular items	Additional items
January	• Review of performance update and associated payout projections of the Annual Bonus Plan 2012 and LTIP cycle 2010–12 (vesting in 2013) • Review of outputs of Remuneration Committee Effectiveness Survey 2012 • Review of performance conditions for 2013 LTIP grant	• Corporate governance update
February	• Review of Directors' base salaries and approval of increases for 1 April 2013 • Testing of the performance conditions underpinning the Annual Bonus Plan 2012 and the LTIP cycle 2010–12; approval of Directors' awards • Review of Executive Directors' personal goals for 2013 • Approval of the terms of the LTIP grant 2013 and Directors' associated conditional share awards	• Remuneration review
July	• Review of the 2013 LTIP grant and an update on dilution levels • Update on the Annual Bonus Plan 2013 and LTIP cycles 2011, 2012 and 2013	• Corporate governance update • Approval of the rules relating to the Scandinavia deferred bonus plan
September	• Approval for a supplementary grant of conditional LTIP awards in November 2013 for non-Board employees • Approval to operate Sharesave in 2013 • Approval of design of new LTIP (2014 Performance Share Plan)	• Corporate governance update • Remuneration review
December[1]	• Update on the Annual Bonus Plan 2013 and LTIP cycles 2011, 2012 and 2013 • Review of proposed 2014 incentives' performance conditions and targets • Review of Committee meeting schedule for 2014 • Approval of revised Remuneration Committee terms of reference	• Shareholder engagement approach • New LTIP rules

Note:
1. The Board met to agree the treatment of Simon Lee's remuneration and terms following his resignation on 12 December 2013.

3. TOTAL REMUNERATION 2013: 'SINGLE FIGURE' TABLES (audited)

The tables below set out the Directors' total remuneration single figure for the financial year ended 31 December 2013. For comparative purposes, 2012 figures are also provided. The components of the Executive Directors' remuneration are detailed on pages 83 to 85. The fee structure applicable to Non-Executive Directors is detailed on page 92. Non-Executive Directors do not participate in any of the Group's incentive plans.

Executive Directors

	Salary		Taxable benefits[1]		Bonus[2]		LTIP		Pension related benefits[5]		Other remuneration[6]		Total	
(£'000)	2013	2012	2013	2012	2013	2012	2013[3]	2012[4]	2013	2012	2013	2012	2013	2012
Adrian Brown	482	475	38	70	–	329	–	364	84	82	2	2	606	1,322
George Culmer[7]	–	226	–	10	–	–	–	–	–	61	–	–	–	297
Richard Houghton[8]	491	267	19	10	–	340	–	–	70	34	–	–	580	651
Simon Lee[9]	778	800	37	34	–	640	–	487	194	201	2	2	1,011	2,164
Total	1,751	1,768	94	124	–	1,309	–	851	348	378	4	4	2,197	4,434

Non-Executive Directors

	Fees		Taxable benefits[1]		Total	
(£'000)	2013	2012	2013	2012	2013	2012
Alastair Barbour	90	80	12	5	102	85
Kath Cates[10]	23	–	–	–	23	–
Noel Harwerth[11]	19	78	–	1	19	79
Edward Lea	102	85	2	2	104	87
Malcolm Le May	80	78	–	–	80	78
John Maxwell[11]	16	74	2	2	18	76
Hugh Mitchell[12]	80	19	–	–	80	19
John Napier[13]	–	400	–	19	–	419
Martin Scicluna[14]	400	–	1	–	401	–
Jos Streppel	68	65	–	1	68	66
Johanna Waterous	70	65	–	1	70	66
Total	948	944	17	31	965	975

Notes:
1. Taxable benefits: includes reimbursement in respect of travel and accommodation. Adrian Brown received a car allowance of £19,685 (2012: £21,791), Richard Houghton received a car allowance of £16,260 (2012: £9,047) and Simon Lee received a car allowance of £17,979 (2012: £17,812). In 2012, George Culmer received a company car benefit of £5,856. In addition, each of the Executive Directors received medical benefits valued at £2,153 in 2013, which included family cover from 1 January 2013 (2012: £861). Alastair Barbour received benefits of £12,370 (2012: £4,735) for taxable travel where relief under HMRC rules is not available.
2. Bonus: comprises awards in respect of performance measures relating solely to the financial year shown, in accordance with the plan described on page 83. No Executive Director received a bonus in respect of the 2013 financial year, and therefore no deferred shares will be awarded. (2012: A 25% portion of the bonus shown was awarded in Compulsory Deferred Shares, and Executive Directors could elect to defer a further 33% of the net cash bonus into Voluntarily Invested Deferred Shares).
3. LTIP 2013: performance based awards granted under the 2011–13 LTIP cycle will lapse in full on 7 April 2014.
4. LTIP 2012: the value of Performance Shares, Compulsory Deferred Matching Shares and Voluntarily Invested Deferred Matching Share awards that vested on 7 April 2013, arising from the LTIP cycle 2010–12, against a market price of £1.096 on the vesting date.
5. Pension related benefits: these benefits are detailed on page 83.
6. Other remuneration: includes gains made from RSA's HMRC-approved all-employee share plans, i.e. gains on maturing Sharesave options and Sharebuild matching shares granted during the year (detailed on page 87). These other items in the nature of remuneration are available to all qualifying UK staff and are non taxable.
7. George Culmer resigned as a Director with effect from 14 May 2012.
8. Richard Houghton was appointed as a Director effective 12 June 2012 on an annual salary of £480,000. The salary value shown in the table for 2012 is the pro-rated amount based on his appointment date.
9. Simon Lee resigned from the Board and his employment ended on 12 December 2013. The salary value shown in the table for 2013 is the pro-rated amount. Pay in lieu of notice is not included in this table, and is captured in the Loss of Office section on page 88.
10. Kath Cates was appointed as a Director on 1 September 2013. The table shows the total remuneration paid for the period 1 September to 31 December 2013.
11. Noel Harwerth and John Maxwell resigned as Directors with effect from 31 March 2013. The table shows the total remuneration paid for the period 1 January to 31 March 2013.
12. Hugh Mitchell was appointed as a Director on 26 September 2012.
13. John Napier retired as a Director and Chairman on 31 December 2012.
14. Martin Scicluna was appointed as a Director and Chairman on 1 January 2013. A £21,000 portion of the above fees relate to the period from 13–31 December 2013 when he was appointed to the role of Executive Chairman. At his request, there was no increase in fee for this period.

4. COMPONENTS OF EXECUTIVE DIRECTORS' REMUNERATION

Base salary

The Committee reviewed the Executive Directors' salaries during 2013, and did so referencing a range of information including market data from two benchmarking peer groups of listed international insurers and FTSE companies of a broadly comparable market capitalisation to RSA, excluding banks and heavy industries. It took into account the average reviews applied elsewhere in the Group, including those for employees subject to collective bargaining agreements, and UK inflation figures. The table below notes the Executive Directors' salaries effective from 1 April 2013.

The Executive Directors' salaries remain unchanged for the 1 April 2014 review, as also noted on page 90.

Director	Annual base salary effective 1 April 2013	% Change
Adrian Brown	£484,500	2%
Richard Houghton	£494,400	3%
Simon Lee	£824,000	3%

Employment benefits

The Executive Directors received a range of employment benefits during the year, including car and medical benefits, and the value of these is noted in the table on page 82.

Pension provision (audited)

The Executive Directors' pension benefits for 2013 were as follows:

- Adrian Brown received a taxable cash allowance of 17.5% of base salary, having opted out of the defined contribution scheme from 31 January 2012.
- Richard Houghton received a combination of a taxable cash allowance of 5.27% of base salary (£26,000), and an employer pension contribution of 9% of base salary into the defined contribution scheme (£44,000). In 2012, Richard Houghton received a taxable cash allowance of 13.18% of base salary and no pension contribution.
- Simon Lee received a taxable cash allowance of 25% of base salary for the period he was employed during 2013 and 2012.

The aggregate value paid by RSA into the Company's stakeholder pension scheme for the Executive Directors in 2013 was £44,172 (2012: £20,849).

All-employee share plans

Executive Directors were eligible to participate in RSA's all-employee share plans (Sharesave and Sharebuild) during the year. Details of their share interests in these plans to 31 December 2013 are noted in the tables on page 87.

Annual Bonus Plan (audited)

For the 2013 financial year, the Executive Directors' Annual Bonus Plan consisted of stretching targets aligned to Group underlying Return on Equity (ROE) and operational objectives personal to their roles which were assessed against a performance scorecard. The Chief Executive, UK and Western Europe was additionally targeted against the Combined Operating Ratio (COR) performance for his region.

The maximum bonus opportunity that could be earned by the Executive Directors in 2013 was 160% of salary, of which half of any award would be compulsorily deferred into RSA shares for three financial years and subject to malus adjustment under the Group's Clawback Policy detailed on page 85. As set out on pages 72 to 75, voluntary deferral and matching shares no longer form part of the incentive framework, and so these were not applicable to any awards arising from this year's Plan.

The achievement of the financial performance measures was below threshold for the year ending 31 December 2013. There was achievement in respect of the individual performance measures, however in light of the financial results the Committee determined that no award would be made to Executive Directors for this component of the bonus plan.

The Executive Directors' bonus awards are stated below for the 2013 and 2012 financial years.

	2013		2012	
Director	Value[1]	% of salary[2]	Value[1]	% of salary[2]
Adrian Brown	£0	0%	£328,510	69%
Richard Houghton	£0	0%	£339,501	71%
Simon Lee[3]	£0	0%	£640,315	80%

Notes:
1. The values shown are inclusive of the Compulsory Deferred Share awards.
2. The bonus awards were determined by the Committee relative to the following annual gross basic salaries:

Adrian Brown:	2013: £484,500	2012: £475,000
Richard Houghton:	2013: £494,400	2012: £480,000
Simon Lee:	2013: £824,000	2012: £800,000

3. Simon Lee resigned from the Board and his employment ended on 12 December 2013, and therefore any eligibility for a bonus award ceased on this date.

Long-term incentives – awards vesting from 2010–12 and 2011–13 cycles (audited)

Conditional long-term incentive awards were made to Executive Directors in the 2010–12 and 2011–13 cycles. This included Performance Shares of up to 150% of salary. Additionally, they could receive Matching Shares for each share deferred through the respective 2009 and 2010 annual bonus plans, via both compulsory and voluntary deferral. The maximum opportunity was 2.5 matching shares per deferred bonus share for the 2010–12 cycle; this was reduced to two matching shares for the 2011–13 cycle.

The vesting of these awards was contingent on RSA achieving targets for Group underlying Return on Equity (ROE) and relative Total Shareholder Return (TSR), measured over a three-year performance period. The table below shows the outcome of the 2010–12 and 2011–13 LTIP cycles, as tested by the Committee and independently verified. Details of the Directors' Compulsory Deferred Shares and the Voluntarily Invested Deferred Shares for the 2011–13 cycle are noted in the table on page 88.

	2011–13			2010–12		
LTIP performance measures	Threshold target: 25% vesting[3]	Maximum target: 100% vesting[3]	Actual performance	Threshold target: 25% vesting[3]	Maximum target: 100% vesting[3]	Actual performance
Relative TSR[1]	Median: 48.9%	Upper quintile: 78.8%	4.7%	Median: 4.6%	Upper quintile: 44.5%	18.2%
Group ROE[2]	10%	16%	6.3%	10%	16%	10.6%

Notes:
1. Relative TSR target is between median and upper quintile within a peer group of: Aegon, Allianz, Aviva, AXA, Baloise, Generali, Legal & General, Munich Re, QBE, Swiss Re and Zurich.
2. Group underlying ROE target is a three-year average measured over the performance period.
3. A straight line calculation is applied to determine the portion of awards that vest for performance between the threshold and maximum targets.

As a result, the 2010–12 cycle had partial vesting on the ROE performance measure (32.5% vesting) and partial vesting on the relative TSR performance measure (41.2% vesting). Awards granted under the 2011–13 cycle will not vest as neither of the performance conditions were achieved.

The Performance Shares and Compulsory Deferred Matching Shares were weighted 70% on the ROE performance measure, and 30% on the Relative TSR measure. The Voluntarily Invested Deferred Matching Share awards were weighted 100% on the ROE performance measure. Consequently, the overall proportion of awards that vested was as follows:

	Overall % vesting	
Form of LTIP award	2011–2013	2010–2012
Performance Shares	0%	35.1%
Compulsory Deferred Matching Shares	0%	35.1%
Voluntarily Invested Deferred Matching Shares	0%	32.5%

The details of the Executive Directors' vested awards are set out in the table below:

		Performance Shares			Compulsory Deferred Matching Shares			Voluntarily Invested Deferred Matching Shares			Total		
LTIP vesting		Granted	Vested	Value	Granted	Vested	Value	Granted	Vested	Value	Granted	Vested	Value
2011–13[1]	Adrian Brown	467,693	0	£0	232,365	0	£0	152,872	0	£0	852,930	0	£0
	Simon Lee[3]	402,329	0	£0	372,757	0	£0	245,239	0	£0	1,020,325	0	£0
2010–12[2]	Adrian Brown	435,823	152,990	£167,677	316,697	111,173	£121,846	208,961	67,912	£74,432	961,481	332,075	£363,954
	Simon Lee[3]	501,091	175,902	£192,789	474,950	166,726	£182,732	313,385	101,850	£111,628	1,289,426	444,478	£487,148

Notes:
1. 2011–13 cycle: The table shows that no performance-based awards arising from this cycle will vest.
2. 2010–12 cycle: The market price of an ordinary share on the date of vesting, 7 April 2013, was £1.096.
3. Simon Lee resigned from the Board and his employment ended on 12 December 2013. His awards in the 2011–13 LTIP cycle shown above lapsed on this date.
4. Richard Houghton was appointed as a Director on 12 June 2012, and had no awards in the above LTIP cycles.

Long-term incentives – awards granted in 2013 (audited)

Conditional long-term incentive awards were made to the Executive Directors during 2013. The awards included both Performance Shares and Matching Shares because they were granted under the 2006 LTIP. They will vest in 2016, subject to the satisfaction of the plan's performance conditions based on Group underlying ROE and relative TSR, which are measured over a three-year period. The targets for these performance measures are shown in the table below.

LTIP performance measures 2013–15	Threshold target: 25% vesting[3]	Maximum target: 100% vesting[3]
Relative TSR[1]	RSA's TSR is equal to the unweighted index of comparators	RSA's TSR outperforms the unweighted index of comparators by at least 7% per annum (22.5% compound over three years) or exceeds the TSR of the highest performing company in the index
Group ROE[2]	9%	14%

Notes:
1. Relative TSR index of comparators includes: ACE, Admiral, Allianz, Amlin, Aviva, Catlin, Direct Line, Gjensidige Forsikring, Hiscox, Intact, Mapfre, QBE, Topdanmark, Tryg and Zurich.
2. Group underlying ROE target is a three-year average over 2013 to 2015.
3. A straight line calculation is applied to determine the portion of awards that vest for performance between the threshold and maximum targets.

The awards granted to each Executive Director are set out in the table below:

	Performance Shares[1 2]		Compulsory Deferred Matching Shares[1 2]		Voluntarily Invested Deferred Matching Shares[1 3]		
	Basis of Award: 150% of salary		Basis of Award: Two matching shares granted for each share deferred from the 2012 bonus award[4]				Total
Director	No. of Shares[5]	Face Value[6]	No. of Shares[5]	Face Value[6]	No. of Shares[5]	Face Value[6]	Face Value[6]
Adrian Brown	623,284	£726,750	139,810	£163,018	138,437	£161,418	£1,051,186
Richard Houghton	636,020	£741,600	144,488	£168,473	143,066	£166,815	£1,076,888
Simon Lee[7]	1,060,034	£1,236,000	272,512	£317,749	269,833	£314,625	£1,868,374

Notes:
1. For all forms of awards, the performance period is three years and ends on 31 December 2015.
2. For Performance Shares and Compulsory Deferred Matching Share awards, the performance measures are Group underlying ROE (70% weighting) and relative TSR (30% weighting).
3. For Voluntarily Invested Deferred Matching Shares, the performance measure is Group underlying ROE (100% weighting).
4. Basis of Award: Under the historical incentive arrangements, Executive Directors could receive two Matching Shares for each share deferred through the 2012 annual bonus plan, on either a compulsory or voluntary deferral basis. 25% of the Executive Directors' total gross bonus award for the 2012 financial year was awarded in Compulsorily Deferred Shares and eligible for matching. An additional 33% of the net bonus award could be deferred into Voluntarily Invested Deferred Shares and eligible for matching.
5. If threshold performance is achieved, 25% of the number of shares shown will vest.
6. Face value of awards are calculated as the maximum number of shares that would vest if all performance measures and targets are met, multiplied by the mid-market closing price of an RSA ordinary share averaged over the five business days preceding the date of grant (3 April 2013), of £1.166.
7. Simon Lee resigned from the Board and his employment ended on 12 December 2013. His LTIP awards shown in this table lapsed on that date.

Clawback Policy

A Clawback Policy was introduced in 2013 which has been further strengthened to apply to awards issued in 2014 onwards. In summary, the Committee has the ability to reduce or forfeit awards that have yet to be paid or vest in the case of shares (i.e. malus adjustment), to delay the payment or vesting date or to amend another form of award or benefit which has yet to be received. These sanctions may apply in circumstances including:

- Material financial misstatement of results for any financial year or the material financial loss/under-performance of a business unit that could have been reasonably risk-managed
- Error or material misstatement leading to an over-payment
- Employee misconduct, including regulatory or other breaches
- Legitimate concerns regarding an employee's conduct, capability or performance
- Actions leading to reputational damage
- Deterioration in the financial health of the Company leading to severe financial constraint
- Any other situation as the Committee may reasonably determine.

5. DIRECTORS' SHAREHOLDING (audited)

Executive Directors' required shareholding 2013

RSA believes it is in shareholders' interests for its executives to hold shares in the Company. Under the guidelines applicable during 2013, executives were expected to build up a minimum holding over a five-year period and maintain it thereafter. The required shareholding levels that applied during 2013 are shown below. For 2014, the Committee increased the Group Chief Executive's required shareholding to 300% of salary as noted on page 92.

Position	% of salary
Group Chief Executive	200%
Other Executive Directors	150%

The number of shares held by the Executive Directors as at 31 December 2013 is shown in the table below. Simon Lee's and Adrian Brown's shareholdings exceeded the required level. Richard Houghton joined RSA in June 2012 and continues to build up his holding within the allotted five-year period.

Director	Shares[1]	Valuation[2]	% of salary[3]
Adrian Brown	1,043,683	£953,926	197%
Richard Houghton	214,046	£195,638	40%
Simon Lee[4]	2,203,360	£2,196,750	267%

Notes:
1. The shareholding excludes all unvested share awards and those otherwise subject to forfeiture or a holding period. It includes Voluntarily Invested Deferred Shares and shares acquired through RSA's all-employee plan, Sharebuild.
2. The valuation is against the mid-market closing price of an RSA ordinary share as at 31 December 2013 of 91.4p per share.
3. The gross base annual salary as at 31 December 2013.
4. Simon Lee resigned from the Board and his employment ended on 12 December 2013. His shareholding is shown at that date, and valued using his gross annual base salary and the mid-market closing price of an RSA ordinary share at that date (99.7p per share).

Shareholdings

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

Director	Shares held at 1 January 2013	Shares held at 31 December 2013
Executive Directors[1,2]		
Adrian Brown	624,407	916,210
Richard Houghton	0	179,710
Simon Lee[3]	1,359,300	2,010,038
Non-Executive Directors[2]		
Alastair Barbour	20,609	43,780
Kath Cates[4]	0	0
Noel Harwerth[5]	10,000	10,000
Edward Lea	764,917	902,624
Malcolm Le May	21,862	23,063
John Maxwell[5]	536,832	536,832
Hugh Mitchell	20,000	21,099
Martin Scicluna	0	42,012
Jos Streppel	0	0
Johanna Waterous	36,761	45,161

Notes:
1. Adrian Brown and Richard Houghton each had a beneficial interest as at 31 December 2013 in Voluntarily Invested Deferred Shares held under the LTIP. Adrian Brown also has an interest in the Partnership, Dividend and Matching Shares under Sharebuild. These are not included in the above table. They are disclosed on pages 87 to 88.
2. As at 26 February 2014, the interests in ordinary shares of the current Non-Executive Directors and Richard Houghton had not changed since 31 December 2013. Changes in the interests of Adrian Brown are disclosed in the notes to the Sharebuild table on page 87.
3. Simon Lee resigned from the Board and his employment ended on 12 December 2013. His share interests are shown at that date and not 31 December 2013.
4. Kath Cates was appointed to the Board with effect from 1 September 2013. The table above shows her shareholding on the date of her appointment and not 1 January 2013.
5. Noel Harweth and John Maxwell resigned from the Board on 31 March 2013. Their interests are shown as at 31 March 2013.

Scheme interests held

Details of Executive Directors' existing awards in the Group's incentive schemes and all-employee share plans for the financial year are set out below. Full details of all Directors' shareholdings and options to subscribe for shares are recorded in the Group's Register of Directors' Interests which is open to inspection by shareholders at the AGM and at the Company's registered office during standard business hours.

Outstanding options

Unexpired options held during 2013 in respect of the ordinary shares of the Company as a result of executive and Sharesave share option schemes are shown below. All options were granted for nil consideration. None of the terms or conditions of any of the existing options over shares of the Group were varied during the year.

The 1999 ESOS is an executive share option scheme under which options were granted with an exercise price equal to the fair value of the shares at the date of grant. Any outstanding options expire 10 years from the date of grant. No grants have been made under the 1999 ESOS since 2006. The 1999 ESOS expired in 2009 although a number of options remain outstanding in accordance with the rules of the scheme. The relevant performance conditions were achieved in respect of the options noted in the table below.

Director and Scheme	Number of options at 1 January 2013	Options granted during the year	Options vested but unexercised during the year	Options exercised during the year	Market price (pence) on date of exercise[1]	Options lapsed during the year	Number of options at 31 December 2013	Exercise price (pence)	Dates exercisable from	Dates exercisable to
Adrian Brown										
Sharesave	5,096	–	5,096	–	–	–	5,096	117.0	01.12.13	31.05.14
Sharesave	6,091	–	–	–	–	–	6,091	97.0	01.12.14	31.05.15
Sharesave	4,078	–	–	–	–	–	4,078	100.0	01.12.15	31.05.16
Simon Lee[2]										
1999 ESOS	206,049	–	–	–	–	206,049	0	114.1	04.06.06	03.06.13
1999 ESOS	125,000	–	–	125,000	124.2	–	0	92.4	16.10.06	15.10.13
1999 ESOS	161,392	–	–	–	–	161,392	0	79.0	14.06.07	13.06.14
1999 ESOS	167,763	–	–	–	–	167,763	0	76.0	18.11.07	17.11.14
1999 ESOS	525,937	–	–	–	–	525,937	0	80.0	08.04.08	07.04.15
1999 ESOS	169,355	–	–	–	–	169,355	0	93.0	18.08.08	17.08.15
Sharesave[3]	3,060	–	3,060	–	–	–	3,060	100.0	01.12.13	31.05.14
Sharesave	2,652	–	–	–	–	2,652	0	95.0	01.12.14	31.05.15
Sharesave	3,800	–	–	–	–	3,800	0	90.0	01.02.16	31.07.16
Sharesave	–	3,221	–	–	–	3,221	0	95.0	01.02.17	31.07.17

Notes:
1. The aggregate gross gain made by Directors during the year on the exercise of share options amounted to £39,778.38.
2. Simon Lee resigned from the Board and his employment ended on 12 December 2013. His interests are therefore shown as at close of business on that date. With the exception of the Sharesave award described in note 3 below, and options under the 1999 ESOS scheme which lapsed during the year, all Mr Lee's outstanding share options lapsed on 12 December 2013.
3. Simon Lee's Sharesave award remains exercisable until 31 May 2014 in accordance with the 2009 Sharesave Rules under which it was granted. The status of the information on this award is given as at close of business on 12 December 2013.
4. The official closing middle market price at its highest during the year was 136.3p per share and at its lowest was 90.1p per share. On the last dealing day of the year it was 91.4p per share.

Sharebuild

The Directors' interests in Sharebuild shares during 2013 were as follows:

	Sharebuild Shares held at 1 January 2013	Partnership Shares acquired during the year	Matching Shares awarded during the year[2]	Dividend Shares acquired during the year	Sharebuild Shares held at 31 December 2013
Adrian Brown[1,2]	8,639	1,276	1,276	553	11,744
Simon Lee[3]	8,639	1,276	1,276	553	0

Notes:
1. The interests of Adrian Brown increased by 254 ordinary shares on 7 January 2014 and a further 242 ordinary shares on 7 February 2014 following the purchase of Partnership Shares and the awards of Matching Shares on those dates.
2. Under the terms of the Company's all-employee Sharebuild Plan (an HMRC-approved Share Incentive Plan), the Matching Shares awarded between December 2009 and February 2011 have vested. Any Matching Shares which have vested under the rules have remained in the Trust and are included in the above table.
3. Simon Lee resigned from the Board and his employment ended on 12 December 2013, and he received his Partnership Shares, vested Matching Shares and Dividend Shares as at that date in accordance with the rules of the Sharebuild Plan. A total of 3,839 unvested Matching Shares in the Scheme were forfeited upon his resignation.

Long-term Incentive Plan 2006 (LTIP)

The Directors' interests in the LTIP were as follows:

	Share awards held at 1 January 2013	Share awards granted during the year[1]	Share awards vested during the year[8, 9]	Share awards lapsed during the year	Share awards held at 31 December 2013
Adrian Brown					
Voluntarily Invested Deferred Shares[2]	135,563	33,225	49,315	0	119,473
Compulsory Deferred Shares[3]	265,009	69,905	126,679	0	208,235
Voluntarily Invested Deferred Matching Shares[4]	596,353	138,437	67,912	141,049	525,829
Compulsory Deferred Matching Shares[5]	639,830	139,810	111,173	205,524	462,943
Performance Shares[6]	2,043,807	623,284	152,990	282,833	2,231,268
Richard Houghton					
Voluntarily Invested Deferred Shares[2]	0	34,336	0	0	34,336
Compulsory Deferred Shares[3]	0	72,244	0	0	72,244
Voluntarily Invested Deferred Matching Shares[4]	0	143,066	0	0	143,066
Compulsory Deferred Matching Shares[5]	0	144,488	0	0	144,488
Performance Shares[6]	712,025	636,020	0	0	1,348,045
Simon Lee					
Voluntarily Invested Deferred Shares[2]	194,616	64,760	259,376	0	0
Compulsory Deferred Shares[3]	378,628	136,256	189,980	324,904	0
Voluntarily Invested Deferred Matching Shares[4]	861,082	269,833	101,850	1,029,065	0
Compulsory Deferred Matching Shares[5]	926,797	272,512	166,726	1,032,583	0
Performance Shares[6]	2,055,714	1,060,034	175,902	2,939,846	0

Notes:
1. The market price of ordinary shares on 3 April 2013, the date on which long-term incentive plan interests were granted during the year, was 111.4p.
2. Voluntarily Invested Deferred Shares are purchased by Capita Trustees Limited on behalf of each participant using part of the net annual bonus paid to them and are held in trust for three years. These deferred shares are not at risk of forfeiture and may be withdrawn from the Trust at any time but any associated Matching Shares lapse if this occurs.
3. Compulsory Deferred Shares have a service condition of three years from date of grant.
4. The performance condition for Voluntarily Invested Deferred Matching Share grants made in 2011, 2012 and 2013 was Group ROE (100% weighting).
5. The performance conditions for Compulsory Deferred Matching Share grants made in 2011, 2012 and 2013 were Group ROE (70% weighting) and relative TSR (30% weighting).
6. The performance conditions for Performance Share grants made in 2011, 2012 and 2013 were Group ROE (70% weighting) and relative TSR (30% weighting).
7. The date by which performance and other conditions for LTIP awards must be met is as follows: 2011 awards by 31 December 2013, 2012 awards by 31 December 2014 and 2013 awards by 31 December 2015.
8. In respect of the awards made to Adrian Brown and Simon Lee, the market price on the date of grant of awards (7 April 2010) was 129.1p, the market price on date of vesting of awards (7 April 2013) was 109.6p. The performance conditions for these awards are shown on page 84.
9. The aggregate value of share awards vested for Directors during the year under the Long-term Incentive Plan amounted to £1,198,162. Voluntarily Invested Deferred Shares, which are shown in the table above, are not included in this value.
10. No other Directors of the Company held long-term incentive scheme interests during 2013.

6. PAYMENTS TO DIRECTORS FOR LOSS OF OFFICE (audited)

Simon Lee resigned from the Board and his employment ended on 12 December 2013. He received no ex-gratia remuneration for loss of office, however, in line with Mr Lee's contractual agreement, he was entitled to receive a payment in lieu of twelve months' notice, paid in monthly instalments. The payment is equivalent to his annual salary (£824,000). A portion of this payment, £40,144, was paid for the period from 13 December to 31 December 2013.

Mr Lee is required to mitigate his losses, and therefore the monthly instalments would be reduced on a pro-rated basis or cease if he receives payment or remuneration in respect of any alternative employment he accepts during the period. Mr Lee will not receive any benefits (or compensation in lieu) in respect of this period. He was paid £31,693 in lieu of accrued annual leave days not taken during 2013.

Mr Lee is not entitled to receive a bonus in respect of the 2013 or 2014 financial years.

A total of 4,481,450 shares granted to Mr Lee under the 2006 Long-term Incentive Plan lapsed on his employment termination date. This included all outstanding LTIP awards, except his 185,417 Voluntarily Invested Deferred Shares which he retained in accordance with the Plan rules (the latter were purchased using part of prior years' net bonus awards, and were valued at £184,861 based on a share price of £0.997 on 12 December 2013). In addition, Mr Lee's vested and unexercised share options granted under the 1999 Executive Share Option Scheme totalling 1,024,447 options, lapsed with immediate effect. Mr Lee's participation in RSA's voluntary all-employee share plans were treated in accordance with the rules of these plans for employees who resign.

7. PAYMENTS TO FORMER DIRECTORS (audited)

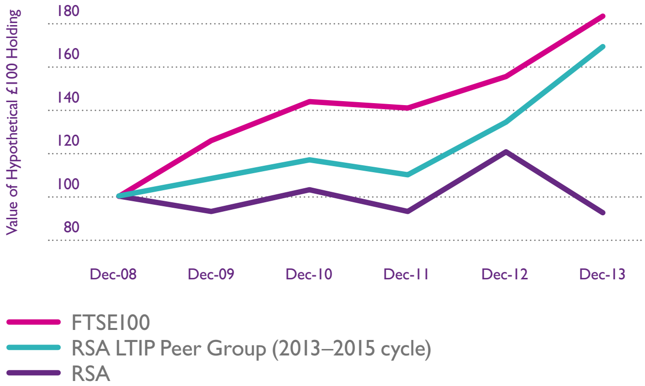
There were no payments made to former directors during 2013, other than the payments disclosed in the Loss of Office section above. As disclosed in the 2011 Director's Remuneration Report, former Group Chief Executive, Andy Haste, was treated as a 'Good Leaver' and so the awards conditionally granted to him in the 2010–12 LTIP cycle partially vested on 7 April 2013, pro-rated for time and achievement against the Plan's performance conditions. The 749,914 Performance, Matching and Compulsory Deferred Shares vesting were valued at £821,906 using a market price at date of vesting of £1.096. His 155,637 Voluntarily Invested Deferred Shares from the cycle were valued at £170,578 based on the same vesting date and share price.

8. HISTORICAL TSR PERFORMANCE AND EXECUTIVE REMUNERATION

The graph shows the TSR of the Group with reference to the FTSE100 Index and the relative TSR peer group used as an LTIP performance measure for the 2013–15 cycle, the constituents of which are noted on page 85.

The FTSE100 Index is included as it comprises the 100 most highly capitalised companies in the UK market, of which RSA was a member in 2013.

RSA's TSR performance relative to the indices is shown over the five years from 31 December 2008 to 31 December 2013. The graph reflects the change in value of ordinary shares in a company over time, as represented by a hypothetical £100 holding in the shares. Any distribution of dividends is included. Data was provided by Datastream.



The table below shows the total remuneration for the incumbents appointed as the most senior Executive Director in the Group over the last five years. The percentages show the proportion of bonuses and LTIPs that were received. Bonuses include both cash and Compulsory Deferred Shares.

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

Notes:
1. Martin Scicluna was appointed Executive Chairman effective 13 December 2013. The single figure of total remuneration above is pro-rated for his time in the position.
2. Simon Lee resigned as Group Chief Executive and his employment ended on 12 December 2013. He did not receive a bonus in respect of the 2013 financial year, and his awards in the 2011–13 LTIP cycle lapsed on that date.
3. Simon Lee became the Group Chief Executive effective 1 November 2011. The single figure of total remuneration above is pro-rated for his time in the position.
4. Andy Haste resigned as Group Chief Executive effective 31 October 2011 and his employment ended 31 December 2011. The single figure of total remuneration above is pro-rated for his time in the position.

9. PERCENTAGE CHANGE IN REMUNERATION

The table below sets out the percentage change in salary, benefits and bonus for the individual undertaking the most senior Executive Director role in the Company compared with UK employees on average between 2012 and 2013. The UK population was selected for this comparison because pay changes within RSA vary significantly, according to local market factors. The Group Chief Executive's role has a Group-wide remit, but is located in the UK.

	Salary and Fees	Taxable benefits[1]	Bonus
All employees	2.8%	1.0%	-21.2%
Most senior Executive Director[2]	-0.2%	6.0%	-100%

Notes:
1. Family medical cover was introduced for Executive Directors from 1 January 2013 to reflect market practice. The value of the benefits used in the calculation increased from £34,479 in 2012 to £36,548 in 2013.
2. The calculation for the 2013 year includes Martin Scicluna for the period he was Executive Chairman (13 to 31 December 2013), and Simon Lee for the period he was Group Chief Executive (1 January to 12 December 2013). Simon Lee did not receive a bonus in respect of the 2013 financial year.

10. RELATIVE IMPORTANCE OF SPEND ON PAY

The table below shows the all-employee pay spend and returns to shareholders by way of dividends for 2013. Figures from 2012 are provided for comparison. The employee pay data covers the Group's employees globally, and therefore includes the impact of exchange rate changes. Levels of inflation vary across the different countries in which the Group operates and, therefore, salary changes will be reflective of local market conditions.

(£m)	2012	2013	% difference from prior year
Total Spend on Employee Pay[1]	1,154	1,215	5.3%
Total Distributions to Shareholders[2]	336	232	-31.0%

Notes:
1. Includes salaries, social security costs, pension costs and share-based payments as shown in the notes to the Financial Statements on page 132.
2. Includes the figures as shown in the notes to the Financial Statements on page 134.

11. IMPLEMENTATION OF REMUNERATION POLICY IN 2014

This section outlines decisions taken by the Committee in respect of the 2014 financial year, and how the Committee intends to implement the Directors' Remuneration Policy during 2014.

At a glance

The table below summarises how the Remuneration Policy will be implemented in the 2014 financial year.

Remuneration Component	Implementation in 2014
Executive Directors	
Base salary	No change from end of 2013
Benefits	No change from end of 2013
Pension	No change from end of 2013
Annual Bonus Plan	Opportunity of 16% of salary at threshold, rising to 80% of salary for on-target performance and 160% of salary at maximum. Performance measures for 2014 are: – Group underlying Return on Tangible Equity (ROTE) – Group underlying Profit Before Tax (PBT) – Regional Underwriting Result – Group/Regional COR – Business Review Scorecard (comprising Capital Strength metrics and Management Actions) – Personal Scorecard
LTIP	Opportunity of 58% of salary at threshold, rising to 144% of salary for on-target performance and 230% of salary at maximum (opportunity of 300% of salary at maximum for Group Chief Executive). Performance measures and weightings for 2014 are: – Group underlying Return on Tangible Equity (⅓) – Relative Total Shareholder Return (⅓) – Business Review Scorecard (comprising growth in TNAV per share, cumulative earnings and a range of capital strength metrics) (⅓)
Required shareholding	Group Chief Executive shareholding requirement increases to 300% of base salary
Non-Executive Directors	
Fees	No change from end of 2013

Recruitment of new Group Chief Executive

Stephen Hester joined the Board on 5 February 2014. His remuneration package is set out below:

- Base salary: £950,000 per annum. No sign-on payments or other similar exceptional, compensatory remuneration will be paid.
- Benefits: Provided in line with the Remuneration Policy.
- Pension: A taxable cash allowance of 30% of base salary.
- Annual Bonus Plan: An on-target opportunity of 80%, rising to 160% of salary at maximum, linked to the achievement of the Plan's targets. Half of any bonus award will be deferred in RSA shares for three years.
- Long-term incentives: Subject to the Group's remuneration arrangements receiving shareholder approval at the 2014 AGM, Mr Hester will be granted an opportunity over Performance Shares, along with other executives. His first grant in 2014 will have a face value equivalent to 300% of salary, and successive annual grants will be made no higher than 230% of salary. When vested, all shares must be held for a further two years (less those sold to cover statutory deductions).
- Shareholding requirement: 300% of salary, to be built up over a five-year period.

Base salary

The Committee has reviewed the Executive Directors' base salaries and has determined that no increases will apply from April 2014. From 1 April 2014, Adrian Brown and Richard Houghton's salaries will be maintained at £484,500 and £494,400, respectively. In accordance with the terms of his appointment, Stephen Hester's salary will first be reviewed on 1 April 2015.

Annual Bonus Plan

As noted in the Committee Chairman's letter on pages 69 to 70, the Annual Bonus Plan has been revised for 2014. Its performance measures are aligned with the core priorities for focus in 2014, chiefly centring on actions arising from the business review as set out in the Group Chief Executive's statement on pages 18 to 19. The Executive Directors will be expected to deliver against stretching targets which are geared towards making significant performance improvement. Specifically, the Business Review Scorecard is a new element of the bonus plan, and it covers two components: capital strength and management actions, required to deliver the business review. The Personal Scorecard consists of 'SMART' objectives bespoke to the Director covering such matters as: financial control, operational performance, customer and employee engagement and risk management.

The level of compulsory deferral has doubled, such that 50% of the total bonus will be awarded in the form of shares and released following a three-year deferral period. As the bonus plan is now decoupled from the long-term incentive plan, there will be no requirement for any voluntary bonus deferral, nor will any matching shares be granted.

The bonus opportunity remains unchanged at 80% of salary for on-target achievement, rising to a maximum of 160% of salary. Threshold performance has been aligned to the market following a benchmarking exercise and it represents 16% of salary (i.e. 10% of the maximum opportunity).

The Committee will assess performance for 2014 once the financial year has ended. It will review the Executive Directors' achievement against the performance measures and apply a performance management framework to ascertain award levels. All of the bonus targets are considered to be commercially sensitive because they signal the Group's forward plan for the year, and therefore they are not provided in this document – a performance narrative will be disclosed in the 2014 Directors' Remuneration Report.

The table below sets out the structure of the bonus plan for 2014.

	Group Executives (Stephen Hester and Richard Houghton)		Regional Executive (Adrian Brown)	
Bonus performance measures	Weighting (% of bonus)	Maximum opportunity (% of salary)	Weighting (% of bonus)	Maximum opportunity (% of salary)
Group underlying Return on Tangible Equity (ROTE)	20%	32%	20%	32%
Group underlying Profit before Tax (PBT)	10%	16%	n/a	n/a
Regional Underwriting Result[1]	n/a	n/a	10%	16%
Group/Regional COR[2]	10%	16%	10%	16%
Business Review Scorecard	30%	48%	30%	48%
Personal Scorecard	30%	48%	30%	48%
Totals	100%	160%	100%	160%

Notes:
1. The measure applicable to Adrian Brown will be UK and Western Europe Underwriting Result.
2. The measure applicable to Stephen Hester and Richard Houghton will be Group COR, the measure applicable to Adrian Brown will be UK and Western Europe COR.
3. Resulting levels of awards related to Group ROTE, Group PBT, Underwriting Result and COR are calculated on a straight line basis between threshold and target, and between target and maximum.

Long-term Incentive Plan

Following the remuneration review, a new LTIP has been designed and will be submitted for shareholder approval at the AGM on 9 May 2014. As detailed on pages 74 to 75, the normal maximum LTIP opportunity has been reduced from 309% of salary to 230% of salary.

The plan directly supports the building of shareholder value by targeting growth in Group underlying Return on Tangible Equity (ROTE), relative Total Shareholder Return (TSR) and a Business Review Scorecard which comprises: growth in Tangible Net Asset Value per Share (TNAV), cumulative earnings and a range of capital strength metrics.

For the 2014 grant, by exception, the relative TSR metric will be targeted against a performance period which will commence four weeks before the grant date and end on 31 March 2017; this is to ensure that the measurement period does not begin during a time when shareholders were not in possession of the full information on RSA's performance and strategy. All other metrics will be assessed against a performance period of 1 January 2014 to 31 December 2016. Achievement against the Business Review Scorecard will be evaluated using a performance framework whereby each metric will be reviewed against its target, and judgement in the round used to determine the level of vesting. The specific targets cannot be disclosed prospectively for reason of price sensitivity, particularly regarding the capital metrics. A performance narrative will be given to summarise the level of vesting on the Business Review Scorecard once the performance conditions have been tested. Executive Directors must retain all vested shares arising from this incentive plan for a further two years (except those sold to cover statutory deductions).

The table below summarises the LTIP's structure.

LTIP performance measures 2014–16	Weighting	Threshold target: 25% vesting[3]	Maximum target: 100% vesting[3]
Relative TSR[1]	⅓	RSA's TSR is equal to the unweighted index of comparators	RSA's TSR outperforms the unweighted index of comparators by at least 7% per annum (22.5% compound over three years) or exceeds the TSR of the highest performing company in the index
Group ROTE[2]	⅓	11%	16%
Business Review Scorecard	⅓	Commercially sensitive	Commercially sensitive

Notes:
1. The index of comparators for this cycle includes: ACE, Admiral, Allianz, Amlin, Aviva, Catlin, Direct Line, Gjensidige Forsikring, Hiscox, Intact, Mapfre, QBE, Topdanmark, Tryg and Zurich.
2. Group underlying ROTE will be calculated on a three-year average basis.
3. A straight line calculation is applied to determine the portion of awards that vest for performance between the threshold and maximum targets in respect of relative TSR and Group ROTE.

Executive shareholding requirement

From 1 January 2014, the Group Chief Executive's shareholding requirement increased from 200% to 300% of salary. The requirement for other Executive Directors remains at 150%.

Non-Executive Directors' fees

Under RSA's Articles, the Non-Executive Directors' remuneration is determined by the Board, within limits set by shareholders. (The biographies of the Non-Executive Directors are contained on pages 46 to 47). The only exception is in respect of the Chairman, whose terms fall within the remit of the Group Remuneration Committee. The Board (minus the Non-Executive Directors) discharges its accountability for setting and managing Non-Executives Directors' remuneration; it will do this when their contractual terms or fee structure are under consideration, which is typically once a year, as noted on pages 76 to 77.

The table below shows the Non-Executive Director fee structure. The Chairman receives a fee of £400,000 per annum which, under the terms of his appointment is not scheduled to be reviewed until January 2016. The Company reviewed the Non-Executive Directors' fees during 2013 in accordance with the Remuneration Policy, and did so referencing a range of information including market data on fees taken from the same peer groups used to benchmark the Executive Directors' salaries, UK inflation figures and the average reviews applied elsewhere in the Group. The fees effective from 1 July 2013 will continue to apply in 2014.

Fee structure	From 1 July 2013	To 30 June 2013
Base fee	£60,000	£60,000
Additional fee for chairing committees:		
Group Audit Committee	£20,000	£20,000
Group Remuneration Committee	£20,000	£12,500
Group Investment Committee	£12,500	£12,500
Board Risk Committee	£20,000	£12,500
Additional fee for Senior Independent Director	£20,000	£20,000
Additional committee fee[1]	£5,000	£5,000

Note:
1. From 1 July 2013, a fee of £5,000 applies for each committee a Non-Executive Director is a member of other than as Committee Chairman; prior to this date, a £5,000 flat fee was paid per annum for Committee membership.

12. STATEMENT OF VOTING AT GENERAL MEETING

The following voting was recorded at the AGM on 15 May 2013 regarding the resolution to approve the Directors' Remuneration Report:

Resolution to approve the Directors' Remuneration Report	Votes For	Votes Against	Total Votes Cast	Votes Witheld[1]
Number of votes	2,043,026,720	206,719,426	2,249,746,146	67,289,722
% of votes cast	90.81%	9.19%	100%	–

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

13. DILUTION

RSA monitors its dilution levels on a regular basis to ensure that they remain within the headroom limits set by the Association of British Insurers (ABI). As at 31 December 2013, the dilution levels were as follows:

ABI Limit	RSA dilution %
10% over 10 years for all share schemes	6.86%
5% over 10 years for discretionary schemes, including long-term incentives	4.13%

14. EXTERNAL DIRECTORSHIPS

Stephen Hester, Richard Houghton and Adrian Brown do not hold outside directorships of FTSE100 (or any other listed) companies but would be allowed to have one such appointment, subject to the approval of the Group Nomination Committee. In accordance with the Remuneration Policy, they would be permitted to retain any fees or expenses arising from such an appointment.

15. DIRECTORS' CONTRACTS

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

Executive Director	Effective date
Adrian Brown	5 July 2011
Stephen Hester	5 February 2014
Richard Houghton	12 June 2012

The table below shows when the Non-Executive Directors' appointments became effective and when their terms will expire.

Non-Executive Director	Date of initial appointment	Expiry date of current term
Alastair Barbour	10 October 2011	10 October 2014
Kath Cates	1 September 2013	1 September 2016
Edward Lea	10 July 2003	27 May 2014
Malcolm Le May	30 March 2004	27 May 2014
Hugh Mitchell	26 September 2012	26 September 2015
Martin Scicluna	1 January 2013	1 January 2016
Jos Streppel	3 October 2011	3 October 2014
Johanna Waterous	20 May 2008	20 May 2014

Hugh S Mitchell
Non-Executive Director and Chairman of Group Remuneration Committee
26 February 2014

DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and Accounts in accordance with applicable laws and regulations. Company law requires the Directors to prepare such financial statements for each financial year. Under that law the Directors are required to prepare Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the Parent Company financial statements under IFRS as adopted by the European Union. Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing these financial statements, International Accounting Standard 1 requires that Directors:

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable the users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- Make an assessment of the Group and Parent Company's ability to continue as a going concern.

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Group's and Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Parent Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and Parent Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

RESPONSIBILITY STATEMENT

We confirm to the best of our knowledge:

- The financial statements on pages 99 to 172, 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 loss/profit of the Group and Parent Company;
- The business review on pages 36 to 43, which is incorporated into the Directors' report, includes a fair review of the development and performance of the business and the position of the Group; and
- The risk review section on pages 32 to 35, which is incorporated into the Directors' report, includes a description of the principal risks and uncertainties faced by the Group.

Signed by order of the Board

Stephen Hester
Group Chief Executive
26 February 2014

Richard Houghton
Group Chief Financial Officer
26 February 2014

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

OPINIONS AND CONCLUSIONS ARISING FROM OUR AUDIT

1. Our opinion on the Group financial statements is unmodified

We have audited the financial statements of RSA Insurance Group plc ('RSA') for the year ended 31 December 2013 set out on pages 99 to 172. In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2013 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS as adopted by the EU');
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the Group financial statements the risks of material misstatement that had the greatest effect on our Group audit were as follows:

Insurance liabilities (provision for losses and loss adjustment expenses) £11,148 million
Refer to page 66 (Group Audit Committee Report), page 108 (accounting policy) and pages 147 to 150 (financial disclosures).

- The risk: The Group has significant insurance liabilities representing 59% of total liabilities. The valuation of insurance liabilities is one of the key judgemental areas that our audit is concentrated on due to the level of subjectivity inherent in estimating the impact of claims events that have occurred but for which the eventual outcome remains uncertain. Particular judgement arises over the estimation of the value of amounts that should be provided for claims that have been incurred at the reporting date but have not yet been reported to the Group.
- Our response: We were assisted by our own actuarial specialists to understand and challenge the Group's reserving practices throughout our audit procedures in this area. Our audit procedures included, among others, evaluating and testing the key controls around the reserving process, including controls over the completeness and accuracy of the data that support key reserving calculations and controls over the valuation of individual claims reserves, such as large loss review controls and internal peer reviews (whereby second reviewers examine documentation supporting claims case reserves and consider if the amount recorded in the financial statements is valued appropriately). In certain locations we have carried out our own reprojections of insurance liabilities for certain classes of business in order to assess the reasonableness of estimates made by management. We evaluated the governance around the overall reserving process including scrutiny applied by local, regional and Group reserving committees and Group level actuarial reviews (as described on page 116) through evaluating whether those responsible had appropriate qualifications and experience, examining the output to assess the scope and depth of these processes and effectively reperforming this review for the most significant and subjective insurance liabilities and the key assumptions applied. We assessed key reserving assumptions including loss ratios, frequency and severity of claims, and where appropriate, discount rates for longer tail classes of business by territory and line of business, and over time, comparing them to expectations based on the Group's historical experience, current trends and our own industry knowledge. We evaluated whether appropriate prudence had been applied in this context and whether reserving was consistent in approach, with sufficient justification for changes in assumptions. We used our industry knowledge to benchmark the Group's reserving methodologies and estimates of losses. Our audit focused particularly on lines of business with the most inherent uncertainty. These include the longer-tailed risks such as Asbestos and Deafness classes, the Danish Workers Compensation class, the Swedish Personal Accident classes, the Canadian General Liability class and classes of business affected by emerging industry issues such as the impact of Periodic Payment Orders on UK motor business. In view of the issues identified in the Irish business, we have performed our own independent reprojections of the insurance liabilities in that business in order to conclude on the reasonableness of the estimates made by management. We assessed whether the Group's disclosure in relation to insurance liabilities, including the discount rate and historic claims development, were appropriate.

Management override of controls
Refer to page 67 (Group Audit Committee Report).

- The risk: During the year financial and claims irregularities were identified in the Group's Irish business. These irregularities involved inappropriate collaboration amongst a small number of senior executives which undermined control effectiveness in some instances. We therefore consider there to be a heightened risk to our audit across the Group due to the potential for local management to override financial reporting controls.

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

- The response: In addition to extending the scope and extent of our own detailed audit procedures in Ireland, in all the other locations in which the Group operates, we extended procedures around the judgemental areas of the balance sheet which were inappropriately accounted for in Ireland. These included claims reserves, inappropriate deferral of costs, acceleration of income recognition and under-provision of insurance liabilities across a number of financial statement captions. We increased the nature and extent of our procedures over claims reserves, for example through selecting larger samples of claims to test. The Group's Internal Audit function has performed additional procedures over claims reserves across the business, including testing the effectiveness of controls over large loss case reserving. We evaluated the quality of Internal Audit's work and where appropriate we have reperformed some of the testing in order to be able to rely on Internal Audit's findings. In response to this risk, and in agreement with the Board, we have extended our audit procedures and performed additional detailed testing of certain transactions and balances, with particular emphasis given to income recognition and cost deferral. This testing was carried out to significantly lower levels of materiality akin to that applied in the local statutory audits of the entities. Our procedures included vouching system data to supporting documentation from other sources, recalculating the recognition of earned premiums and amortisation of deferred acquisition costs, testing whether deferred costs met relevant criteria (for example, because they relate to the acquisition of insurance policies) and more detailed testing of manual journals through examining a larger number of journals and obtaining evidence to support amounts and rationale for posting.

Goodwill and other intangible assets £1,103 million
Refer to page 66 (Group Audit Committee Report), page 106 (accounting policy) and pages 135 to 137 (financial disclosures).

- The risk: The valuation of intangible assets and goodwill on acquisitions is complex and typically requires a high level of judgement, particularly in countries where there is increased uncertainty over the economic prospects, growth rates or future business prospects for example in Argentina and Poland. The accounting irregularities identified in the Irish business have further increased the uncertainty related to the performance of this business going forward. Goodwill is tested for impairment annually and the most significant judgements arise over the forecast cashflows and the discount rates applied in calculating the value in use, which is then compared to the carrying value of the business to assess if the goodwill is impaired. In addition, the Group holds a significant amount of capitalised software intangible assets, the majority of which are in the UK and Scandinavian businesses. Judgement arises over whether the software is generating sufficient economic benefits to support its value, the period benefits will be realised over, and the amount of any impairments that are recognised.
- Our response: In this area our audit procedures included, among others, challenging the cashflow forecasts and corresponding assumptions, and the useful economic lives of intangible assets based on our understanding of the relevant business and the industry and economic environment in which it operates. We compared forecasts to business plans and also previous forecasts to actual results to assess the performance of the business and the accuracy of forecasting. We compared the Group's assumptions to externally derived data as well as our own assessments in relation to key inputs such as projected economic growth, forecast profit margins, cost inflation and discount rates and applied sensitivities in evaluating the Group's assessment. Our own valuation specialists have assisted us in evaluating the assumptions and methodologies used by the Group, in particular those relating to the discount rate and growth rates and in evaluating these assumptions with reference to valuations of similar companies. Our focus has been on goodwill in businesses that are most sensitive to the assumptions underlying the valuations, in particular Ireland, where the recent accounting irregularities mean that there is increased uncertainty over future profitability. We have also focused our procedures on the basis for impairments that have been recognised in respect of the Group's businesses in Argentina and Poland. We assessed whether the impairments of goodwill were sufficient and supported by the valuations of the business.
- Based on our understanding of the business and its operations, we have assessed whether there were any indications that capitalised software intangible assets may be impaired. Where impairment indicators were identified, we examined the assumptions behind the expected future benefits to be derived from using the related software, considering both the value of the benefits and the extent to which they are derived from the use of the software. In assessing this, we compared the assumptions to our understanding of the business and relevant economic and industry factors. We evaluated whether sufficient future benefits are expected from the software and systems to support the current carrying value and to assess whether impairments recognised were appropriate.
- We have also assessed the adequacy of the Group's disclosures in respect of goodwill and other intangible assets, and in particular the disclosure of sensitivity to key assumptions (see note 8).

Deferred tax assets £302 million
Refer to page 67 (Group Audit Committee Report), page 109 (accounting policy) and pages 151 to 153 (financial disclosures).

- The risk: Significant judgement is required over the recoverability of deferred tax assets because the realisation of tax benefits is often dependent on future taxable profits and there are inherent uncertainties involved in forecasting, which is the basis of the assessment of recoverability. The deferred tax asset in the UK is particularly subjective given its sensitivity to expectations about the profitability of the UK business.

- The response: In this area our audit procedures included, among others, challenging the key assumptions underlying the taxable profit projections prepared by the directors to support the Group's assessment of its ability to recover deferred tax assets. The key assumptions are the growth rates and profit margins which drive the emergence of future profit projections, particularly in the UK business to which the largest element of the deferred tax asset relates. Our audit procedures over the future projections included comparing the expected growth rates to business forecasts, assessing the accuracy of that forecasting process in the past, and considering whether projected margins are achievable with reference to the business's recent performance and plans and our own industry knowledge. Our own tax specialists were involved in considering the extent to which projected profits were taxable. We have also evaluated the adequacy of the Group's disclosures in respect of taxes, and in particular the disclosures around the assumptions supporting the deferred tax asset valuation and recognition.

Pensions and post-retirement obligations net pension deficit of £125 million
Refer to page 66 (Group Audit Committee Report), page 110 (accounting policy) and pages 154 to 159 (financial disclosures).

- The risk: Significant estimates are made in valuing the Group's post-retirement defined benefit schemes and small changes in assumptions and estimates used to value the Group's net pension deficit would have a significant effect on the financial position of the Group.
- Our response: In this area our audit procedures included, among others, testing of the controls over the maintenance of each scheme's membership data as well as sample testing from those data to the source documentation establishing the obligation to members, and vice versa. With the support of our own pension actuarial specialists, we then challenged the key assumptions applied to this data to determine the Group's net deficit, being the discount rate, inflation rate and mortality/life expectancy. This included a comparison of these key assumptions against externally derived data. We also considered the adequacy of the Group's disclosures in respect of the sensitivity of the deficits to these assumptions.

IT systems and controls
Refer to page 67 (Group Audit Committee Report).

- The risk: Many financial reporting controls depend on the correct functioning of related elements of the operational and financial IT systems, for example interfaces between policy administration and financial reporting systems or automated controls which are designed to prevent inaccurate or incomplete transfers of financial information. This is an area of significant risk in our audit due to the complexity of the IT infrastructure, particularly in the UK, where there are legacy systems which require increased manual inputs.
- Our response: In this area our audit procedures included, among others, testing general IT controls around system access and change management and testing controls over computer operations within specific applications which are required to be operating correctly to mitigate the risk of misstatement in the financial statements. With the support of our own IT specialists, we tested these controls through examining whether changes made to the systems were appropriately approved, and assessing whether appropriate restrictions were placed on access to core systems through testing the permissions and responsibilities of those given that access. Where IT controls were not operating effectively and we were therefore unable to rely on certain automated IT controls, we considered whether financial information was impacted and extended the scope of our work by performing additional audit procedures in a limited number of areas. In the areas where we performed additional procedures we were able to place reliance on manual compensating controls, such as reconciliations between systems and other information sources, or perform additional testing, such as extending the size of our sample sizes, to obtain sufficient appropriate audit evidence over the financial statement balances that were impacted.

3. OUR APPLICATION OF MATERIALITY AND AN OVERVIEW OF THE SCOPE OF OUR AUDIT

The materiality for the Group financial statements as a whole was set at £50m. This has been determined with reference to a benchmark of gross written premiums (of which it represents 0.5%), which we consider to be one of the principal considerations for members of the Company in assessing the financial performance of the Group.

We agreed with the audit committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £2.5m, in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

Audits for group reporting purposes were performed by component auditors at five key reporting components being: Scandinavia; Canada; UK and Western Europe; Emerging Markets and the Group Corporate Centre. Each of these key reporting components includes a number of individual locations. In total, we performed audits for group reporting purposes in 11 different locations. In addition, specified audit procedures were performed by component auditors in nine further locations.

These group procedures covered 93% of gross written premiums, 95% of profits and losses before taxes, 98% of insurance liabilities and 93% of total assets. The segment disclosures in note 1 set out the individual significance of a specific segment.

The audits undertaken for group reporting purposes at the key reporting components of the Group were all performed to materiality levels set by, or agreed with, the Group audit team. These component materiality levels were set for each component. Within each component the materiality levels applied ranged from between £10m to £40m. Detailed audit instructions were sent to all the auditors in these locations. These instructions covered the significant audit areas that should be covered by these audits (which included the relevant risks of material misstatement detailed above) and set out the information required to be reported back to the Group audit team. The Group audit team visited the following locations: UK, Canada, Sweden, Denmark, Ireland, Chile, Argentina, Brazil and the UAE. Telephone meetings were also held with the auditors at these locations and for other locations that were not physically visited during the audit.

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

In addition to the audits undertaken for group reporting purposes, as described in our procedures above in response to management override of controls, we have extended our audit procedures in response to the issues identified in the Group's Irish business. This supplementary testing was undertaken in all the locations in which the Group operates and performed to levels of materiality akin to that applied in the local statutory audits of the entities concerned.

4. OUR OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006 IS UNMODIFIED

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and Directors' and Corporate Governance Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

5. WE HAVE NOTHING TO REPORT IN RESPECT OF THE MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy; or
- the Group Audit Committee Report does not appropriately address matters communicated by us to the audit committee.

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

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 55, in relation to going concern; and
- the part of the Corporate Governance Statement on page 45 relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code (2010) specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope of report and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 94, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2013a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Stuart Crisp (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
London
26 February 2014

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	2013 £m	Restated 2012 £m
Income			
Gross written premiums		9,822	9,397
Less: reinsurance premiums		(1,158)	(1,044)
Net written premiums	1	8,664	8,353
Change in the gross provision for unearned premiums		(151)	(188)
Less: change in provision for unearned premiums, reinsurers' share		81	2
Change in provision for unearned premiums		(70)	(186)
Net earned premiums		8,594	8,167
Net investment return	2	527	534
Other operating income	4	137	141
Total income		9,258	8,842
Expenses			
Gross claims incurred		(6,653)	(5,837)
Less: claims recoveries from reinsurers		683	448
Net claims	3	(5,970)	(5,389)
Underwriting and policy acquisition costs		(2,701)	(2,552)
Unwind of discount		(160)	(84)
Other operating expenses	4	(544)	(242)
Total expenses		(9,375)	(8,267)
Finance costs	4	(125)	(121)
Net share of loss after tax of associates	11	(2)	(6)
(Loss)/profit before tax	1	(244)	448
Income tax expense	5	(94)	(121)
(Loss)/profit for the year		(338)	327
Attributable to:			
Equity holders of the Parent Company		(347)	320
Non controlling interests		9	7
		(338)	327
Earnings per share on (loss)/profit attributable to the ordinary shareholders of the Parent Company			
Basic	6	(9.8)p	8.8p
Diluted	6	(9.8)p	8.7p
Ordinary dividends paid and proposed for the year			
Interim dividend paid (per share)	7	2.28p	3.41p
Final dividend proposed (per share)	7	nil	3.90p

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	2013 £m	Restated 2012 £m
(Loss)/profit for the year		**(338)**	327
Items that may be reclassified to the income statement:			
Exchange losses net of tax	18	**(130)**	(70)
Share of associates' other comprehensive (expense)/income	18	**(2)**	1
Fair value (losses)/gains on available for sale financial assets net of tax	18	**(257)**	111
		(389)	42
Items that will not be reclassified to the income statement:			
Remeasurement of net defined benefit pension liability net of tax	18	**17**	(137)
Movement in property revaluation surplus net of tax	18	**2**	4
		19	(133)
Total other comprehensive expense for the year		**(370)**	(91)
Total comprehensive (expense)/income for the year		**(708)**	236
Attributable to:			
Equity holders of the Parent Company		**(713)**	232
Non controlling interests		**5**	4
		(708)	236

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2013

	Ordinary share capital £m	Ordinary share premium £m	Own shares £m	Preference shares £m	Revaluation reserves £m	Capital redemption reserve £m	Foreign currency translation reserve £m	Retained earnings £m	Share-holders' equity £m	Non controlling interests £m	Total equity £m
Balance at 1 January 2012 as previously reported	971	1,144	(1)	125	454	8	243	857	3,801	114	3,915
Reserve transfer (note 19)	–	(420)	–	–	–	–	–	420	–	–	–
Balance at 1 January 2012 restated	971	724	(1)	125	454	8	243	1,277	3,801	114	3,915
Total comprehensive income for the year (note 18)	–	–	–	–	113	–	(61)	180	232	4	236
Dividends (note 7)	–	–	–	–	–	–	–	(336)	(336)	(3)	(339)
Shares issued by scrip	12	(12)	–	–	–	–	–	50	50	–	50
Shares issued for cash (note 19)	3	5	–	–	–	–	–	–	8	4	12
Changes in shareholders' interests in subsidiaries	–	–	–	–	(1)	–	–	(10)	(11)	10	(1)
Depreciation transfer	–	–	–	–	(12)	–	–	12	–	–	–
Share based payments	3	–	–	–	–	–	–	3	6	–	6
Balance at 1 January 2013 restated	**989**	**717**	**(1)**	**125**	**554**	**8**	**182**	**1,176**	**3,750**	**129**	**3,879**
Total comprehensive expense for the year (note 18)	**–**	**–**	**–**	**–**	**(256)**	**–**	**(116)**	**(341)**	**(713)**	**5**	**(708)**
Dividends (note 7)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(232)**	**(232)**	**(14)**	**(246)**
Shares issued by scrip	**18**	**(18)**	**–**	**–**	**–**	**–**	**–**	**75**	**75**	**–**	**75**
Shares issued for cash (note 19)	**2**	**5**	**–**	**–**	**–**	**–**	**–**	**–**	**7**	**–**	**7**
Changes in shareholders' interests in subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(3)**	**(3)**	**1**	**(2)**
Share based payments	**3**	**–**	**–**	**–**	**–**	**–**	**–**	**6**	**9**	**–**	**9**
Balance at 31 December 2013	**1,012**	**704**	**(1)**	**125**	**298**	**8**	**66**	**681**	**2,893**	**121**	**3,014**

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2013

	Notes	2013 £m	2012 £m
Assets			
Goodwill and other intangible assets	8	**1,103**	1,489
Property and equipment	9	**160**	272
Investment property	10	**331**	340
Investments in associates	11	**44**	40
Financial assets	12	**12,259**	12,660
Total investments		**12,634**	13,040
Reinsurers' share of insurance contract liabilities	14	**2,026**	1,949
Insurance and reinsurance debtors	15	**3,593**	3,592
Current tax assets	24	**60**	76
Deferred tax assets	24	**302**	285
Other debtors and other assets	16	**787**	753
		1,149	1,114
Cash and cash equivalents	17	**1,162**	1,329
		21,827	22,785
Assets held for sale	35	**103**	–
Total assets		**21,930**	22,785
Equity and liabilities			
Equity			
Shareholders' equity		**2,893**	3,750
Non controlling interests		**121**	129
Total equity		**3,014**	3,879
Liabilities			
Loan capital	20	**1,309**	1,311
Insurance contract liabilities	21	**15,001**	14,854
Insurance and reinsurance liabilities	22	**643**	558
Borrowings	23	**301**	296
Current tax liabilities	24	**57**	58
Deferred tax liabilities	24	**82**	139
Provisions	25	**366**	487
Other liabilities	26	**1,157**	1,203
Provisions and other liabilities		**1,662**	1,887
Total liabilities		**18,916**	18,906
Total equity and liabilities		**21,930**	22,785

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

The financial statements were approved on 26 February 2014 by the Board of Directors and are signed on its behalf by:

Richard Houghton
Group Chief Financial Officer

CONSOLIDATED STATEMENT OF CASHFLOWS

FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	2013 £m	2012 £m
Cashflows from operations	32	**241**	165
Tax paid		**(102)**	(201)
Investment income		**507**	526
Interest paid		**(117)**	(115)
Dividends received from associates		**–**	1
Pension deficit funding		**(73)**	(73)
Net cashflows from operating activities		**456**	303
Proceeds from sales or maturities of:			
Financial assets		**4,019**	4,533
Investment property		**41**	–
Property and equipment		**2**	22
Investments in subsidiaries (net of cash disposed of)		**2**	–
Purchase of:			
Financial assets		**(4,242)**	(4,198)
Investment property		**(43)**	(2)
Property and equipment		**(38)**	(35)
Intangible assets		**(130)**	(146)
Investments in subsidiaries (net of cash acquired)		**(15)**	(97)
Investments in associates		**(4)**	(9)
Net cashflows from investing activities		**(408)**	68
Proceeds from issue of share capital		**7**	12
Sale of shares to non controlling interests		**2**	6
Purchase of shares from non controlling interests		**(1)**	–
Dividends paid to ordinary shareholders		**(148)**	(277)
Dividends paid to preference shareholders		**(9)**	(9)
Dividends paid to non controlling interests		**(14)**	(2)
Net movement in other borrowings		**4**	(1)
Net cashflows from financing activities		**(159)**	(271)
Net (decrease)/increase in cash and cash equivalents		**(111)**	100
Cash and cash equivalents at beginning of the year		**1,329**	1,258
Effect of exchange rate changes on cash and cash equivalents		**(56)**	(29)
Cash and cash equivalents at end of the year	17	**1,162**	1,329

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

SIGNIFICANT ACCOUNTING POLICIES

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

CONSOLIDATED FINANCIAL STATEMENTS

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

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

There are no significant changes to Group accounting policies during 2013 other than those disclosed below.

CHANGES IN ACCOUNTING POLICIES, PRESENTATION, DISCLOSURE AND COMPARATIVE INFORMATION

The Group has adopted the following revisions to existing IFRS and new IFRS during 2013:

IAS 19 Employee Benefits – Restatement

The Group has adopted the revised version of IAS 19 'Employee Benefits'.

Expected returns on plan assets are no longer recognised in profit or loss. Expected returns are replaced by recording interest income in profit or loss, which is calculated using the discount rate used to measure the pension obligation.

The information for the year ended 31 December 2012 has been restated and the impact of the revised standard on the results previously reported for the year ended 31 December 2012 is provided in note 27.

IAS 1 Presentation of Financial Statements

The Group has applied Amendment to IAS 1 'Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income'. There is a change in the presentation of items in the consolidated statement of comprehensive income on page 100 which now identifies separately items that may be reclassified to the income statement.

The change in presentation has no impact on either the total financial results or the financial position of the Group.

The information for the year ended 31 December 2012 has been presented in accordance with the revised standard.

IFRS 13 Fair Value Measurement

The Group has adopted IFRS 13 'Fair Value Measurement' and as a consequence there are additional disclosures included in the financial statements as presented in note 13.

Amendments to IFRS 7

The Group has adopted 'Disclosures: Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)'. There are additional disclosures made to explain existing rights where under specified circumstances the Group has the benefit of additional security over an asset through a right of offset against certain liabilities.

The adoption of the amendments to IFRS 7 has no impact on either the total financial results or the financial position of the Group.

The adoption of IFRS 13 increased the value of the Group's pension schemes' assets by £160m which is recognised in other comprehensive income (see note 27).

There are a number of other changes to IFRS that became mandatory in 2013 but which have no significant impact on the financial statements of the Group.

SELECTION OF ACCOUNTING POLICIES

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

The basis of selection of the accounting policies for the accounting for financial assets is to designate financial assets that are held as investments on the basis on which the investment return is managed and the performance is evaluated internally. Where the investment return is managed on the basis of the periodic cashflows arising from the investment, a financial asset is designated as an available for sale financial asset with unrealised gains recognised in the statement of comprehensive income. Where the investment return is managed on the basis of the total return on the investment (including unrealised investment gains), the financial asset is designated as at fair value through the income statement.

CONSOLIDATION

Subsidiaries

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

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

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange.

For business combinations completed on or after 1 January 2010 the cost of acquisition includes the fair value of deferred and contingent consideration at the acquisition date and subsequent changes in the carrying value of the consideration are recognised in the income statement. For business combinations completed prior to 31 December 2009, the cost also includes costs directly attributable to the acquisition and the value of contingent consideration on settlement.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

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

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

Associates

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

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

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

TRANSLATION OF FOREIGN CURRENCIES

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

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

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

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

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

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

SIGNIFICANT ACCOUNTING POLICIES CONTINUED

INTANGIBLE ASSETS

Goodwill

Goodwill, being the difference between the cost of a business acquisition and the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired, is initially capitalised in the statement of financial position at cost and is subsequently recognised at cost less accumulated impairment losses. The cost of the acquisition is the amount of cash paid and the fair value of other purchase consideration.

For business combinations completed prior to 31 December 2009, the cost also includes costs directly attributable to the acquisition and the value of contingent consideration on settlement.

Goodwill is allocated to cash generating units for the purpose of impairment testing. Goodwill is subject to an impairment review at least annually. An impairment review is also carried out whenever there is an indication that goodwill is impaired. Where the carrying amount is more than the recoverable amount, impairment is recognised in the income statement. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Other intangible assets

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

When valuing insurance liabilities in a business combination, provisions for losses and loss adjustment expenses are discounted to present value. Following the acquisition, the acquired provisions for losses and loss adjustment expenses are, where applicable, valued in accordance with Group accounting policies at full nominal value. This increase in insurance liabilities is matched by the recognition of an intangible asset arising from acquired provisions for losses and loss adjustment expenses, representing the present value of future investment income implicit in the claims discount. The intangible asset is amortised over the expected run off period and is tested within the liability adequacy test of insurance contract liabilities where the balances of intangible assets associated with insurance contracts are deducted from the carrying amount of the insurance contract liabilities. The run off period is normally between 5 and 11 years.

Expenditure that enhances the future economic benefits arising from computer software is recognised as an intangible asset.

Computer software and other intangible assets are carried at cost less accumulated amortisation and less any accumulated impairment losses. Amortisation on computer software and other intangible assets is calculated using the straight line method to allocate the cost over their estimated useful lives, which is normally estimated to be between 3 and 12 years.

An impairment review is carried out whenever there is an indication that an intangible asset is impaired. Where the carrying amount is more than the recoverable amount, an impairment charge is recognised in the income statement.

Impairment losses previously recognised on other intangible assets may be reversed in subsequent periods provided that the revised carrying amount does not exceed the value that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised.

PROPERTY AND EQUIPMENT

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

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

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

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

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

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

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

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

INVESTMENT PROPERTY

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

Investment property is recorded at fair value. Unrealised gains and unrealised losses or changes thereof are recognised in net investment return.

FINANCIAL ASSETS

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

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

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

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

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

For available for sale financial assets, where the cumulative changes in fair value recognised in other comprehensive income represent a loss, the individual asset or group of assets is reviewed to test whether an indication of impairment exists.

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

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

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

DERIVATIVE FINANCIAL INSTRUMENTS

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

HEDGING

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

- There is a formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge
- The hedge is expected to be highly effective in achieving offsetting changes in fair value or cashflows attributable to the hedged risk, consistent with the originally documented risk management strategy for that particular hedging relationship
- The effectiveness of the hedge can be reliably measured
- The hedge is assessed on an ongoing basis and determined to have been highly effective.

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

SIGNIFICANT ACCOUNTING POLICIES CONTINUED

ESTIMATION OF THE FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

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

INSURANCE CONTRACTS

Product classification

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

Recognition of income

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

Insurance contract liabilities

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

Acquisition costs comprise the direct and indirect costs of obtaining and processing new insurance business. These costs are recognised as deferred acquisition costs and are deducted from the provision for unearned premiums. Deferred acquisition costs (DAC) are amortised on the same basis as the related unearned premiums are earned.

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

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

Differences between the estimated cost and subsequent settlement of claims are recognised in the income statement in the period in which they are settled or in which the provisions for losses and loss adjustment expenses are re-estimated.

At the end of each reporting period liability adequacy tests are performed to ensure the adequacy of the provision for unearned premium net of related DAC assets. In performing these tests best estimates of future contractual cashflows, claims handling and administrative expenses as well as investment income on assets backing such liabilities are used. Any deficiency is charged to the income statement immediately by establishing a provision for liability adequacy (the unexpired risk provision). The unexpired risk provision is assessed in aggregate for business classes which, in the opinion of the Directors, are managed together.

Reinsurance ceded

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

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

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

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

CASH AND CASH EQUIVALENTS

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

OWN SHARES

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

LOAN CAPITAL

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

TAXATION

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

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

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

EMPLOYEE BENEFITS

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

SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

Contributions to defined contribution pension schemes are charged in the income statement in the period in which the employment services qualifying for the benefit are provided. The Group has no further payment obligations once the contributions have been paid.

The value of the net defined benefit liability (asset) recognised in the statement of financial position for each individual post retirement scheme is calculated as follows:

- The present value of defined benefit obligation of the scheme at the end of the reporting period
- Minus the fair value at the end of the reporting period of the scheme assets out of which the obligations are to be settled directly.

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

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

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

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

- The current service cost
- The past service costs and gains or losses on settlements
- Net interest on the net defined benefit liability (asset)
- Administration costs of operating the pension schemes.

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

Past service costs arise from a plan amendment or curtailment. Past service costs are recognised in the income statement at the earlier of when the plan amendment or curtailment occurs and, where applicable, when the Group recognises related restructuring costs or termination benefits.

The net interest on the net defined benefit liability (asset) is determined by multiplying the net defined benefit liability (asset) by the discount rate, both as determined at the start of the annual reporting period and taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

Remeasurements of the net defined benefit liability (asset) comprise actuarial gains and losses and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability (asset)) and are recognised in other comprehensive income.

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

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of when it can no longer withdraw the offer and when any related restructuring costs are recognised. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

Share based payments

The value of employee share options and other equity settled share based payments is calculated at fair value at the grant date using appropriate and recognised option pricing models.

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

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

PROVISIONS

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

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

DIVIDENDS TO EQUITY HOLDERS

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

LEASES

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

OPERATING SEGMENTS

Operating segments are identified on the basis of the regional structure of the Group. Internal reports about these segments are regularly reviewed by the Board of Directors (determined to be the chief operating decision maker) to assess their performance and to allocate capital and resources.

ASSETS AND LIABILITIES HELD FOR SALE AND DISCONTINUED OPERATIONS

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

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

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

CURRENT AND NON CURRENT DISTINCTION

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

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

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

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Pronouncements issued by the International Accounting Standards Board (IASB) and adopted by the EU but which are not yet mandatory for adoption and have yet to be adopted in the Group financial statements are described below:

New and revised IFRS that will be applied by the Group in its 2014 financial statements

The Group will apply IFRS 10 'Consolidated Financial Statements', IFRS 11 'Joint Arrangements' and IFRS 12 'Disclosure of Interests in Other Entities'. None of these are expected to have a significant impact on the financial statements of the Group. There are a number of other changes to IFRSs that become mandatory in 2014 but which have no significant impact on the financial statements of the Group.

Other new and revised IFRS that are not mandatory for adoption in 2014

There are a number of new IFRS and revised IFRSs that have been issued and which are mandatory after 2014. It is expected that none of these changes will have a significant impact on the financial statements of the Group.

ESTIMATION TECHNIQUES, RISKS, UNCERTAINTIES AND CONTINGENCIES

Other new IFRS that are not yet adopted by the EU

The IASB has issued a new IFRS and a number of changes to existing IFRS that have not yet been adopted by the EU. The most significant of these ongoing developments for the Group is the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'.

INTRODUCTION

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

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

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

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

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

ESTIMATION TECHNIQUES

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

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

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

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

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

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

The provisions for losses and loss adjustment expenses are subject to close scrutiny both within the Group's business units and at Group Corporate Centre. In addition, for major classes where the risks and uncertainties inherent in the provisions are greatest, regular and ad hoc detailed reviews are undertaken by advisers who are able to draw upon their specialist expertise and a broader knowledge of current industry trends in claims development. As an example, the Group's exposure to asbestos related losses 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.

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

UNCERTAINTIES AND CONTINGENCIES

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

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

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

There may be significant reporting lags between the occurrence of the insured event and the time it is actually reported to the Group. Following the identification and notification of an insured loss, there may still be uncertainty as to the magnitude and timing of the settlement of the claim. There are many factors that will determine the level of uncertainty such as inflation, inconsistent judicial interpretations and court judgements 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 judgements 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 judgements 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 manage such exposure to levels acceptable to the Group.

ASBESTOS AND ENVIRONMENTAL CLAIMS

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

Factors contributing to this higher degree of uncertainty include:

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

ESTIMATION TECHNIQUES, RISKS, UNCERTAINTIES AND CONTINGENCIES CONTINUED

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.

POTENTIAL CREDIT RISK FOR STRUCTURED SETTLEMENTS

In Canada the Group has purchased annuities from regulated Canadian life insurers in order to pay fixed and recurring payments to certain claimants. This arrangement exposes the group to a credit risk in the event that the life insurers are unable to make these payments which is mitigated by an industry compensation scheme which in that event would assume a significant majority of the remaining outstanding obligations. The likelihood of both a Canadian regulated life insurer and the industry compensation scheme being unable to pay their obligations is considered very remote and so no provision has been recognised in respect of this risk.

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 Group 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.

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 appropriate 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 which the directors believe may 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.

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, at a minimum, single 'A' ratings. At the present time the ratings are 'A' (CreditWatch Developing) from S&P and 'A2' (stable outlook) from Moody's. A worsening in the ratings, below objective, 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 the Danish Krone and Swedish Krona, the Euro 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. The Group continues to monitor the developments and react accordingly.

Solvency II, the new solvency framework being developed by the EU is intended to achieve greater harmonisation of approach across EU member states to assessing capital resources and requirements. The planned implementation date is now 1 January 2016, although there still remains continued uncertainty as to the final rules. The Group is actively involved in shaping the outcome through its involvement with European and UK regulators and industry bodies, whilst progressing its implementation plans. The directors are confident that the Group will continue to meet all future regulatory capital requirements.

RISK MANAGEMENT

As an insurance company, the Group is in the business of actively seeking risk with a view to adding value by managing it. This section summarises the key risks to the Group and the steps taken to manage them.

As set out in the corporate governance report, the Group's Board of Directors (the 'Board') defines the risk appetite of the organisation.

The Group employs a comprehensive Risk Management System that includes a full range of risk policies, procedures, measurement, reporting and monitoring techniques and a series of stress tests and scenario analyses to ensure that the risk exposures that arise from operating the Group's business are managed appropriately.

For the purposes of managing risks, the Group classifies risks into the following categories:

- Insurance
- Credit
- Market
- Liquidity
- Operational
- Reputational
- Strategic

INSURANCE RISK

Underwriting and claims risks

The Group manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling. The underwriting strategy aims to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and geography.

Pricing for the Group's products is generally based upon historical claims frequencies and claims severity averages, adjusted for inflation and modelled catastrophes trended forward to recognise anticipated changes in claims patterns. While claims remain the Group's principal cost, the Group also makes allowance in the pricing procedures for acquisition expenses, administration expenses, investment income, the cost of reinsurance and for a profit loading that adequately covers the cost of the capital.

Underwriting limits are in place to enforce appropriate risk selection criteria. The Group generally has the right not to renew individual policies, it can impose deductibles and it has the right to reject the payment of a fraudulent claim. In certain territories, legislation imposes a minimum amount for which employers can be liable for claims for compensation from employees injured at work. These liabilities are usually insured under an employer's liability (or similar) insurance policy. All policies issued by the Group comply with minimum statutory requirements.

All of the Group's underwriters have specific licences that set clear parameters for the business they can underwrite, based on the experience of the individual underwriter. Additionally, the Group has a centrally managed forum looking at Group underwriting issues, reviewing and agreeing underwriting direction and setting policy and directives where appropriate. The Group has a quarterly portfolio management process across all its business units, which provides a consistent assessment of each portfolio performance against a set of key performance indicators. Under the portfolio management system, key risk indicators are tracked to monitor emerging trends, opportunities and risks and, on an annual basis, a review forum of business and underwriting leaders undertake a detailed review of each portfolio utilising data from the quarterly reviews.

The Group has developed enhanced methods of recording exposures and concentrations of risk. This means there is greater control of exposures in high risk areas and enables a prompt response to claims from policyholders should there be a catastrophic event such as an earthquake.

Reinsurance arrangements in place include proportional, excess of loss, stop loss and catastrophe coverage. The effect of such reinsurance arrangements is that the Group should not suffer total net insurance losses beyond the Group's risk appetite in any one year.

Reserve risk

The Group establishes loss reserves to account for the anticipated ultimate costs of all losses and related loss adjustment expenses (LAE) on losses that have already occurred. The Group establishes reserves for reported losses and LAE, as well as for incurred but not yet reported (IBNR) losses and unallocated loss adjustment expenses (ULAE). Loss reserve estimates are based on known facts and on interpretation of circumstances including the Group's experience with similar cases and historical claims payment trends. The Group also considers the development of loss payment trends, levels of unpaid claims, judicial decisions and economic conditions.

The Group has a Group Reserving Committee consisting of the Group Chief Executive, Group Chief Financial Officer, Group Underwriting and Claims Director, Group Chief Actuary and Group Chief Risk Officer. A similar committee has been established in each of the Group's major operating segments. The Group Reserving Committee monitors the decisions and judgements made by the business units as to the level of reserves recommended and makes the final decision on the reserves to be included within the consolidated financial statements. In forming its collective judgement, the Committee considers the following information:

- An actuarial indication of ultimate losses together with an assessment of risks and possible favourable or adverse developments that may not have been fully reflected in calculating these indications. At the end of 2013 these risks and developments include: the possibility of future legislative change having retrospective effect on open claims; changes in claims settlement procedures potentially leading to future claims payment patterns differing from historical experience; the possibility of new types of claim, such as disease claims, emerging from business written several years ago; general uncertainty in the claims environment; the emergence of latent exposures such as asbestos; the outcome of litigation on claims received; failure to recover reinsurance and unanticipated changes in claims inflation
- The views of internal peer reviewers of the reserves and of other parties including actuaries, legal counsel, risk directors, underwriters and claims managers
- How previous actuarial indications have developed.

USE OF REINSURANCE

The Group is exposed to both multiple insured losses and losses arising out of a single occurrence, for example a natural peril event such as a hurricane, flood or earthquake.

All of the Group's operations are required to purchase reinsurance within agreed local reinsurance appetite parameters. The Group Corporate Centre authorises the operations' proposed treaty purchases to check that they at least meet the Group's appetite, for example the '1 in 200 year' standard for catastrophe risk. Group Corporate Centre also checks to see that total Group exposures are within the limits set out above and also are consistent with the required risk based capital. In addition, local facultative arrangements may be purchased where deemed appropriate.

The Group remains primarily liable as the direct insurer on all risks reinsured, although the reinsurer is liable to the Group to the extent of the insurance risk ceded.

CREDIT RISK

Credit risk is the risk of loss of value of the financial assets due to counterparties failing to meet all or part of their obligations. The Board Risk Committee (BRC) is responsible for ensuring that the Board approved Group credit risk appetite is not exceeded. This is done through the setting and imposition of Group policies, procedures and limits. In defining its appetite for credit risk the Group looks at exposures at both an aggregate and business unit level distinguishing between credit risks incurred as a result of offsetting insurance risks or operating in the insurance market (e.g. reinsurance credit risks and risks to receiving premiums due from policyholders and intermediaries) and credit risks incurred for the purposes of generating a return (e.g. invested assets credit risk).

Limits are set at both a portfolio and counterparty level based on likelihood of default, derived from the rating of the counterparty, to ensure that the Group's overall credit profile and specific concentrations are managed and controlled within risk appetite. Financial assets are graded according to company standards. AAA is the highest possible rating. Investment grade financial assets are classified within the range of AAA to BBB ratings. For invested assets, restrictions are placed on each of the Group's investment managers as to the level of exposure to various rating categories including unrated securities.

The following table provides information regarding the aggregated credit risk exposure for financial assets of the Group as at 31 December 2013:

	Credit rating relating to financial assets that are neither past due nor impaired						Total of financial assets that are neither past due nor impaired
	AAA £m	AA £m	A £m	BBB £m	<BBB £m	Not rated £m	£m
Debt securities	5,448	2,323	2,401	856	99	124	11,251
Loans and receivables	27	–	44	–	2	73	146
Reinsurers' share of insurance contract liabilities	–	538	1,235	202	44	1	2,020
Insurance and reinsurance debtors	236	38	631	140	113	2,289	3,447
Derivative assets	–	28	–	–	–	30	58
Other debtors	–	–	–	–	–	313	313
Cash and cash equivalents	184	321	374	106	23	154	1,162

Notes:
1. The insurance and reinsurance debtors classified as not rated comprise personal policyholders and small corporate customers that do not have individual credit ratings. The overall credit risk to the Group is deemed to be low as the cover could be cancelled if payment were not received on a timely basis.

RISK MANAGEMENT CONTINUED

As at 31 December 2012

	Credit rating relating to financial assets that are neither past due nor impaired						Total of financial assets that are neither past due nor impaired
	AAA £m	AA £m	A £m	BBB £m	<BBB £m	Not rated £m	£m
Debt securities	5,985	2,079	2,585	835	81	159	11,724
Loans and receivables	18	–	21	3	3	41	86
Reinsurers' share of insurance contract liabilities	35	533	1,040	218	50	55	1,931
Insurance and reinsurance debtors	121	23	695	136	104	2,336	3,415
Derivative assets	–	12	31	–	–	3	46
Other debtors	–	–	–	–	–	323	323
Cash and cash equivalents	276	452	412	97	33	59	1,329

With the exception of AAA rated government debt securities, the largest aggregate credit exposure does not exceed 3% of the Group's total financial assets. Holdings of government bonds in Greece, Italy, Ireland, Spain and Portugal are £119m at 31 December 2013 and comprise around **1%** (2012: around 1%) of the total bond portfolio. In addition to this the Group holds £189m of senior and subordinated bank debt and £103m of other corporate holdings in these countries.

The Group is exposed to credit and concentrations of risk with individual reinsurers, due to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable credit ratings. The reinsurance strategy is to purchase reinsurance in the most effective manner from reinsurers who meet the Group's security standards. Reinsurance counterparties are subject to a rigorous internal assessment process on an ongoing basis to ensure that their creditworthiness continues to be satisfactory and the potential impact from reinsurer default is measured regularly and managed accordingly. The Group Reinsurance Credit Committee oversees the management of these risks. Group standards are set such that reinsurers that have a financial strength rating of less than 'A-' with Standard & Poor's, or a comparable rating, are removed from the Group's authorised list of approved reinsurers unless the Group's internal review discovers exceptional circumstances in favour of the reinsurer. Collateral is taken to mitigate exposures, where appropriate, to acceptable levels. At 31 December 2013 the Group held collateral against **£165m** (2012: £143m) of reinsurers' share of insurance contract liabilities.

The Group regularly monitors its aggregate exposures by reinsurer group against predetermined reinsurer group limits, in accordance with the methodology agreed by the BRC. The Group's largest reinsurance exposures to active reinsurance groups are Swiss Re, Munich Re, and HDI-Gerling. At 31 December 2013 the reinsurance asset recoverable from these groups does not exceed 3% of the Group's total financial assets. Stress tests are performed by reinsurer counterparty and the limits are set such that in a catastrophic event, the exposure to a single reinsurer is estimated not to exceed 3% of the Group's total financial assets. Certain of the Group's subsidiaries are members of government mandated pools in various parts of the world. As of 31 December 2013 the largest pool (by premium volume) is Pool Re operated by the UK Government to provide terrorism cover.

There are no material financial assets that would have been past due or impaired had the terms not been renegotiated.

The following table provides information regarding the carrying value of financial assets that have been impaired and the ageing of financial assets that are past due but not impaired as at 31 December 2013:

		Financial assets that are past due but not impaired						
	Neither past due nor impaired £m	Up to three months £m	Three to six months £m	Six months to one year £m	Greater than one year £m	Financial assets that have been impaired £m	Carrying value in the statement of financial position £m	Impairment losses charged to the income statement £m
Debt securities	11,251	–	–	–	–	–	11,251	–
Loans and receivables	146	–	–	–	–	–	146	(6)
Reinsurers' share of insurance contract liabilities	2,020	–	–	–	–	6	2,026	(4)
Insurance and reinsurance debtors	3,447	97	20	15	13	1	3,593	(7)
Derivative assets	58	–	–	–	–	–	58	–
Other debtors	313	8	2	11	8	–	342	–
Cash and cash equivalents	1,162	–	–	–	–	–	1,162	–

As at 31 December 2012

		Financial assets that are past due but not impaired						
	Neither past due nor impaired £m	Up to three months £m	Three to six months £m	Six months to one year £m	Greater than one year £m	Financial assets that have been impaired £m	Carrying value in the statement of financial position £m	Impairment losses charged to the income statement £m
Debt securities	11,724	–	–	–	–	–	11,724	–
Loans and receivables	86	–	–	–	–	11	97	(7)
Reinsurers' share of insurance contract liabilities	1,931	–	–	–	–	18	1,949	1
Insurance and reinsurance debtors	3,415	107	35	11	24	–	3,592	(1)
Derivative assets	46	–	–	–	–	–	46	–
Other debtors	323	5	18	3	8	–	357	–
Cash and cash equivalents	1,329	–	–	–	–	–	1,329	–

Local operations are responsible for assessing and monitoring the creditworthiness of their counterparties (e.g. brokers and policyholders). Local credit committees are responsible for ensuring these exposures are within the risk appetite of the local operations. Exposure monitoring and reporting is embedded throughout the organisation with aggregate credit positions reported and monitored at Group level.

The Group's investments comprise a broad range of financial investments issued principally in the UK, Canada and Scandinavia.

At 31 December 2013, the Group had pledged **£871m** (2012: £895m) of financial assets as collateral for liabilities or contingent liabilities and had accepted **£463m** (2012: £827m) in collateral. The nature of the assets pledged as collateral comprises government securities of **£801m** (2012: £831m), cash and cash equivalents of **£37m** (2012: £32m) and non government debt securities of **£33m** (2012: £32m). The terms and conditions of the collateral pledged are market standard in relation to letter of credit facilities.

The Group is permitted to sell or repledge collateral held in the event of default by the owner, the fair value of which has been noted above at £463m. The terms and conditions of the collateral held are market standard. The assets held as collateral are readily convertible into cash.

At 31 December 2013, the Group had entered into short-term sale and repurchase agreements for UK government securities. The Group continues to recognise the debt securities in the statement of financial position as the Group remains exposed to the risks and rewards of ownership. The carrying value of these debt securities recognised in the statement of financial position is **£300m** (2012: £295m) and the carrying value of the associated liabilities is **£300m** (2012: £295m).

The Group enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master netting arrangements. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one counterparty to the other. In certain circumstances, such as a credit default, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is payable in settlement of all transactions.

RISK MANAGEMENT CONTINUED

The ISDA agreements do not meet the criteria for offsetting in the statement of financial position. This is because the Group does not have any currently legally enforceable right to offset recognised amounts, because the right to offset is enforceable only on the occurrence of future events.

The following table sets out the carrying amounts of recognised financial instruments that are subject to the above agreements:

At 31 December 2013

	Amounts subject to enforceable netting arrangements						
	Effect of offsetting in statement of financial position			Related items not offset			As reported in statement of financial position
	Gross amounts £m	Amounts offset £m	Net amounts reported £m	Financial instruments £m	Financial collateral £m	Net amount £m	£m
Derivative financial assets	52	–	52	(7)	(5)	40	52
Total assets	52	–	52	(7)	(5)	40	52
Derivative financial liabilities	22	–	22	(6)	(36)	(20)	22
Repurchase arrangements and other similar secured borrowing	300	–	300	(300)	–	–	300
Total liabilities	322	–	322	(306)	(36)	(20)	322

At 31 December 2012

	Amounts subject to enforceable netting arrangements						
	Effect of offsetting in statement of financial position			Related items not offset			As reported in statement of financial position
	Gross amounts £m	Amounts offset £m	Net amounts reported £m	Financial instruments £m	Financial collateral £m	Net amount £m	£m
Derivative financial assets	13	–	13	(1)	(5)	7	13
Total assets	13	–	13	(1)	(5)	7	13
Derivative financial liabilities	41	–	41	(33)	(26)	(18)	41
Repurchase arrangements and other similar secured borrowing	295	–	295	(295)	–	–	295
Total liabilities	336	–	336	(328)	(26)	(18)	336

Notes:
1. The Group's equity derivatives are exchange traded instruments and as such the Group treats the intermediary as a single counterparty in the above table.

MARKET RISK

The Group is exposed to the risk of potential losses from adverse movements in market prices including those of interest rates, equities, property, exchange rates and derivatives.

Exposures are controlled by the setting of investment limits and managing asset-liability matching in line with the Group's risk appetite.

The Group Investment Committee (GIC), on behalf of the Group Board, is responsible for reviewing and approving the investment strategy for the Group's investment portfolios. It provides approval for all major changes of the Group's investment strategy and, in particular, approves any substantive changes to the balance of the Group's funds between the major asset classes. Importantly, the GIC also approves the terms of reference of the Group's main operational investment committee, the Group Asset Management Committee (GAMC). The BRC issues GAMC with investment risk limits.

Interest rate risk

The fair value of the Group's portfolio of fixed income securities is inversely correlated to changes in the market interest rates. Thus if interest rates fall, the fair value of the portfolio would tend to rise and vice versa as set out in the sensitivity analysis on page 122.

Equity price risk

The Group's portfolio of equity securities is subject to equity risk arising from changes in market price. Thus if the value of equities rise, so will the fair value of its portfolio and vice versa as set out in the sensitivity analysis on page 122.

The Group sets appropriate risk limits to ensure that no significant concentrations in individual companies arise. The Group takes a long-term view in selecting shares and looks to build value over a sustained period of time rather than utilising high level of purchase and sales in order to generate short-term gains from its equity holdings.

The Group makes use of derivative products as appropriate to manage equity exposure and to protect the portfolio from losses outside of its risk appetite.

Property price risk

The Group's portfolio of properties is subject to property price risk arising from changes in the market value of properties. Further information on the valuation approach is included in note 13. Thus if the value of property falls so will the fair value of the portfolio as set out in the sensitivity analysis on page 122.

A number of the Group's property holdings are Group occupied and therefore are reported within property and equipment. The Group's investment in investment property is recorded as such and these investments are held as part of an efficient portfolio management strategy.

Currency risk

The Group operates in 32 countries. Accordingly, its net assets are subject to foreign exchange rate movements. The Group's primary foreign currency exposures are to the Danish Krone, Euro, Canadian Dollar and the Swedish Krona. If the value of Sterling strengthens then the value of non Sterling net assets will decline when translated into Sterling and consolidated.

The Group incurs exposure to currency risk in two ways:

- Operational currency risk – by underwriting liabilities in currencies other than the currency of the primary environment in which the business units operate (non functional currencies)
- Structural currency risk – by investing in overseas subsidiaries and operating an international insurance group.

Operational currency risk is managed within the Group's individual operations by broadly matching assets and liabilities by currency.

Structural currency risk is managed at a Group level through currency forward and foreign exchange option contracts within the limits that have been set. In managing structural currency risk, the needs of the Group's subsidiaries to maintain net assets in local currencies to satisfy local regulatory solvency and internal risk based capital requirements are taken into account. These assets should prove adequate to support local insurance activities irrespective of exchange rate movements. Consequently, this may affect the value of the consolidated shareholders' equity expressed in Sterling.

At 31 December 2013, the Group's total shareholders' equity analysed by currency is:

	Pounds Sterling £m	Danish Krone/Euro £m	Canadian Dollar £m	Swedish Krona £m	Other £m	Total £m
Shareholders' equity at 31 December 2013	482	610	494	393	914	2,893
Shareholders' equity at 31 December 2012	1,057	629	572	558	934	3,750

The analysis aggregates the Danish Krone exposure and the Euro exposure as the Danish Krone continues to be pegged closely to the Euro. The Group considers the aggregate exposures when reviewing its hedging strategy.

RISK MANAGEMENT CONTINUED

Shareholders' equity is stated after taking account of the effect of currency forward contracts and foreign exchange options. On this basis, a 10% change in Sterling against Danish Krone/Euro, Canadian Dollar or Swedish Krona would have the following impact on shareholders' equity:

	10% strengthening in Pounds Sterling against Danish Krone/Euro £m	10% weakening in Pounds Sterling against Danish Krone/Euro £m	10% strengthening in Pounds Sterling against Canadian Dollar £m	10% weakening in Pounds Sterling against Canadian Dollar £m	10% strengthening in Pounds Sterling against Swedish Krona £m	10% weakening in Pounds Sterling against Swedish Krona £m
Movement in shareholders' equity at 31 December 2013	**(55)**	**67**	**(45)**	**55**	**(36)**	**44**
Movement in shareholders' equity at 31 December 2012	(57)	70	(52)	64	(51)	62

Apart from the impact on derivative financial instruments covered below, the changes arise from retranslation of foreign subsidiaries' net asset positions from their functional currencies into Pounds Sterling, with movements being taken through the translation reserve. These movements in exchange rates therefore have no impact on profit.

Derivatives

The Group may use derivative financial instruments for the purpose of reducing its exposure to adverse fluctuations in interest rates, foreign exchange rates, equity prices and long-term inflation. The Group does not use derivatives to leverage its exposure to markets and does not hold or issue derivative financial instruments for speculative purposes. Forward contracts and foreign exchange options are used to reduce the risk of adverse currency movements on certain forecast future cash transactions and for structural hedging. The policy on use of derivatives is approved by the BRC.

	Remaining life			Fair value		Notional principal amounts	
	Less than one year £m	One to five years £m	More than five years £m	**2013 £m**	2012 £m	**2013 £m**	2012 £m
Cross currency							
Asset	**43**	–	–	**43**	15	**1,472**	974
Liability	**1**	–	–	**1**	6	**462**	830
Inflation							
Asset	–	–	**9**	**9**	21	**see below**	see below
Liability	–	–	**7**	**7**	24	**see below**	see below
Equity index							
Asset	**6**	–	–	**6**	10	**see below**	see below
Liability	**21**	–	–	**21**	12	**see below**	see below

At 31 December 2013 there are derivative contracts in place to protect the value of the UK, Canadian, European, and US equity portfolios of the Group. These provide limited protection against declines in market levels whilst also capping participation in any appreciation of the market. In total, this strategy covers an underlying equity value up to approximately **£379m** (2012: £348m). If UK, Canadian, European and US equity markets decreased by 15%, the impact of these derivatives as at 31 December 2013, would be to decrease the impact of the decline by **£28m** (2012: £26m).

The Group is party to a series of swap contracts which collectively provide limited cover against a sharp increase in long-term claims inflation. In total the swap contracts provide inflation cover over a nominal value of **£180m** (2012: £180m) and are split over different contract terms.

At 31 December 2013 the Group holds currency forward contracts and foreign exchange options that are designated as hedging instruments to reduce structural foreign exchange risk. The derivatives are included in the table above. Further information on designated hedges can be found in note 29.

Sensitivity analysis

The Group uses a number of sensitivity or stress-test based risk management tools to understand the impact of the above risks on earnings and capital in both normal and stressed conditions. These stress tests combine deterministic shocks, analysis of historical scenarios and stochastic modelling using the internal capital model to inform the Group's decision making and planning process and also for identification and management of risks within the business units.

The following table provides an indication of some of the single factor changes adopted within the Group.

Changes in the income statement and other comprehensive income:

	Increase/(decrease) in income statement		Decrease in other comprehensive income	
	2013 £m	2012 £m	2013 £m	2012 £m
Interest rate markets:[2]				
Impact on fixed interest securities of increase in interest rates of 100bps[3]	–	–	(427)	(446)
Decrease of equity markets:[4]				
Direct impact on equities of a 15% fall in equity markets	(6)	(25)	(87)	(84)
Mitigating impact arising from derivatives held	28	26	–	–
Property markets:[4]				
Decrease of property markets of 15%	(50)	(51)	(10)	(23)

Notes:

1. This analysis assumes that there is no correlation between equity price, interest rate and property market rate risks. It also assumes that all other assets and liabilities remain unchanged and that no management action is taken. This analysis does not represent management's view of future market change, but reflects management's view of key sensitivities
2. The sensitivity of the fixed interest securities of the Group has been modelled by reference to a reasonable approximation of the average interest rate sensitivity of the investments held within each of the portfolios. The effect of movement in interest rates is reflected as a one time rise of 100bps on 1 January 2014 and 1 January 2013
3. The impact on the fair value of the loan capital for a 100bps rise in interest rates is a decrease of **£42m** (2012: £55m)
4. The effect of movements in equity and property markets is reflected as a one time decrease of worldwide equity and property markets on 1 January 2014 and 1 January 2013 which results in a 15% decline in the value of the Group's assets in these investment categories
5. This analysis has not considered the impact of the above market changes on the valuation of the Group's insurance contract liabilities or retirement benefit obligations
6. This analysis is presented gross of the corresponding tax credits/(charges)
7. The equity price risk sensitivity analysis is indicative and is based on the Group's equity portfolio as at 31 December 2013. Since 31 December 2013 the Group has significantly reduced its equity portfolio and as a result the equity price risk has substantially reduced such that a 15% fall in equity markets would result in a £6m decrease to total comprehensive income

LIQUIDITY RISK

Liquidity risk is the risk that the Group may be unable to pay obligations when due as a result of assets not being available in a form that can immediately be converted into cash. The investment risk limits set by the BRC ensure that a large part of the Group's portfolio is kept in highly liquid marketable securities sufficient to meet its liabilities as they fall due based on actuarial assessment and allowing for contingencies. The limits are monitored at a Group level as part of the Group Risk exposure monitoring and BRC reporting process.

In addition the Group has committed credit facilities available as set out in note 23.

Maturity periods or contractual repricing

The following table summarises the contractual repricing or maturity dates (whichever is earlier) for financial liabilities that are subject to fixed and variable interest rates. Insurance contract liabilities are also presented and are analysed by remaining estimated duration until settlement.

RISK MANAGEMENT CONTINUED

As at 31 December 2013

	Less than one year £m	One to two years £m	Two to three years £m	Three to four years £m	Four to five years £m	Five to ten years £m	Greater than ten years £m	Total £m	Carrying value in the statement of financial position
Subordinated guaranteed US$ bonds	–	–	–	–	–	–	15	15	13
Subordinated guaranteed perpetual bonds	–	–	–	375	–	–	–	375	342
Subordinated guaranteed perpetual notes	450	–	–	–	–	–	–	450	460
Subordinated guaranteed dated notes	–	–	–	–	–	500	–	500	494
Provision for unearned premium	3,482	265	66	10	15	15	–	3,853	3,853
Provisions for losses and loss adjustment expenses	4,096	1,916	1,243	840	584	1,397	2,218	12,294	11,148
Direct insurance creditors	295	1	–	–	–	–	–	296	296
Reinsurance creditors	341	5	1	–	–	–	–	347	347
Borrowings	300	–	–	–	–	1	–	301	301
Deposits received from reinsurers	41	–	–	–	–	–	–	41	41
Derivative liabilities	27	2	–	–	–	–	–	29	29
Total	9,032	2,189	1,310	1,225	599	1,913	2,233	18,501	17,324
Interest on perpetual bonds and notes	109	73	73	62	48	24	7	396	

As at 31 December 2012

	Less than one year £m	One to two years £m	Two to three years £m	Three to four years £m	Four to five years £m	Five to ten years £m	Greater than ten years £m	Total £m	Carrying value in the statement of financial position
Subordinated guaranteed US$ bonds	–	–	–	–	–	–	15	15	14
Subordinated guaranteed perpetual bonds	–	–	–	–	375	–	–	375	334
Subordinated guaranteed perpetual notes	–	450	–	–	–	–	–	450	470
Subordinated guaranteed dated notes	–	–	–	–	–	500	–	500	493
Provision for unearned premium	3,481	263	79	7	5	17	–	3,852	3,852
Provisions for losses and loss adjustment expenses	4,065	1,849	1,199	826	600	1,464	2,334	12,337	11,002
Direct insurance creditors	283	6	–	–	–	–	–	289	289
Reinsurance creditors	253	9	2	4	–	–	–	268	269
Borrowings	295	–	–	–	–	1	–	296	296
Deposits received from reinsurers	33	–	–	–	–	–	–	33	33
Derivative liabilities	42	–	–	–	–	–	–	42	42
Total	8,452	2,577	1,280	837	980	1,982	2,349	18,457	17,094
Interest on perpetual bonds and notes	112	109	73	73	62	71	9	509	

The duration analysis above is presented on an undiscounted basis. The carrying values in the statement of financial position are discounted where appropriate in accordance with Group accounting policy.

The capital and interest payable on the bonds and notes have been included until the dates on which the Group has the option to call the instruments and the interest rates are reset. For further information on the terms of the bonds and notes see note 20 to the financial statements.

Undiscounted interest payments are calculated based on underlying fixed interest (as detailed in note 20). Year end exchange rates have been used for interest projections on loans in foreign currencies.

OPERATIONAL RISK

Operational risk is the risk of direct or indirect losses resulting from human factors, external events and inadequate or failed internal processes and systems. Operational risks are inherent in the Group's operations and are typical of any large enterprise. Major sources of operational risk can include operational process reliability, information security, outsourcing of operations, dependence on key suppliers, implementation of strategic and operational change, integration of acquisitions, fraud, human error, customer service quality, inadequacy of business continuity arrangements, recruitment, training and retention of staff, and social and environmental impacts.

The Group manages operational risk using a range of techniques and tools to identify, monitor and mitigate its operational risk in accordance with the Group's risk appetite. These tools include Risk and Control Self Assessments, Key Risk Indicators (e.g. fraud and service indicators), Scenario Analyses and Loss Reporting. In addition, the Group has developed a number of contingency plans including Incident Management and Business Continuity Plans. Quantitative analysis of operational risk exposures material to the Group is used to inform decisions on the overall amount of capital held and the adequacy of contingency arrangements.

REPUTATIONAL RISK

Reputational risk is the current or prospective risk to earnings and capital arising from adverse perception of the image of the Group on the part of customers, counterparties, shareholders, investors or regulators. The External Communications team keeps under constant review the threats to the Group's reputation, both internal and external, and the Risk function works with them to promote a culture of responsibility from the front line businesses to the Board. The tools used include a reputational risk register, clear and simple processes, training, external threat and perception monitoring and crisis management plans.

STRATEGIC RISK

Strategic risk is the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes. This risk is a function of the compatibility of an organisation's strategic goals, the business strategies developed to achieve those goals, the resources deployed against these goals, and the quality of implementation. The strategic risk profile is kept under continuous review by the Group Executive Committee and forms a key element of quarterly Board Risk Committee meetings. The strategic risk profile is set out on page 33.

CAPITAL MANAGEMENT

Own Risk and Solvency Assessment (ORSA)

The Solvency II directive introduces a requirement for undertakings to conduct an ORSA. In anticipation of this requirement, the Group has updated its risk and capital management processes.

The Group defines its ORSA as a series of inter-related activities by which it establishes:

- The quantity and quality of the risks which it seeks to assume
- The level of capital required to support those risks
- The actions it will take to achieve and maintain the desired levels of risk and capital.

The assessments of how much risk to assume and how much capital to hold are inextricably linked. In some situations, it may be desirable to increase the amount of risk assumed or retained in order to make the most efficient use of capital available or else to return excess capital to capital providers. In other situations, where the risks assumed give rise to a capital requirement that is greater than the capital immediately available to support those risks, it will be necessary either to reduce the risk assumed or to obtain additional capital.

The assessment of risk and solvency needs is in principle carried out continuously. In practice, the assessment consists of a range of specific activities and decisions carried out at different times of the year as part of an annual cycle, supplemented as necessary by ad hoc assessments of the impact of external events and developments and of internal business proposals.

Papers are presented to the Board throughout the year dealing with individual elements that make up the ORSA. The information contained in those papers and the associated decisions taken are summarised in an annual ORSA report.

RISK MANAGEMENT CONTINUED

Capital appetite

The Group's objective is to maintain sufficient capital, which comprises shareholders' equity and subordinated loan capital, to meet its plan and objectives. This represents sufficient surpluses for both regulatory and economic capital, as well as sufficient capital to support the Group's aim of maintaining single 'A' ratings. To assist in managing its capital position, the Group has set internal target coverage ratios for each of the principal capital measures. Further discussion of capital risks and how they are monitored and managed is included in the Risk Management section of the Strategic Report.

The Group's regulated entities aim to hold appropriate levels of capital to satisfy applicable local regulations. In certain instances this could restrict the subsidiaries' ability to transfer funds to the UK parent where retained earnings form part of the local required regulatory capital. Additionally, regulation in certain countries in which the Group's subsidiaries operate may also impose other limitations such as foreign exchange control restrictions.

Economic capital (unaudited)

Economic capital is the Group's preferred measure of capital sufficiency. It is the Group's own assessment of the amount of capital it needs to hold to meet its obligations given the Group's risk appetite.

The economic capital analysis compares available capital with the economic capital assessment (ECA). Available capital is the capital (over and above the IFRS insurance liabilities) that is available to absorb losses. It includes subordinated debt, but excludes items such as goodwill and other intangible assets, deferred tax items and pension scheme surpluses and deficits. ECA is the capital required to meet liabilities at a confidence level equivalent to Standard & Poor's long-term A rated bond default curve.

	2013 £bn	2012 £bn
Available capital	**3.1**	3.8
ECA	**2.4**	3.1
ECA surplus	**0.7**	0.7

The overall position remains unchanged as losses due to issues identified in Ireland and adverse weather have been offset by profitability elsewhere in the Group.

The economic capital model is used to support, inform and improve the Group's decision making across the Group. It is used to determine the Group's optimum capital structure, its investment strategy, its reinsurance programme and to determine the pricing and target returns for each portfolio. The economic capital model is also used for the Group's Individual Capital Assessment (ICA). The only adjustment made is to use the PRA's required calibration.

Regulatory solvency position

The Group remains fully compliant with both the PRA's risk based ICA methodology and Solvency I, which is used to calculate the Insurance Groups Directive (IGD) requirement.

For the Group's senior regulated insurance company, Royal & Sun Alliance Insurance plc, the capital position continues to be reported under Solvency I.

As at 31 December 2013 the Group has an IGD surplus of **£0.2bn** (unaudited) (2012: £1.2bn). The IGD surplus has been impacted by adverse movements in investment markets with significant reductions in bond values, retained losses and an increase in requirements resulting from higher business volumes. The coverage ratio stood at **1.1 times** (unaudited) at 31 December 2013 (2012: 1.9 times).

The Group received its latest Individual Capital Guidance (based on its ICA submission) from the PRA in February 2014 and at the request of the PRA remains confidential. The ICA is a forward looking, economic assessment of the capital requirements of the Group based on its assessment of the risks to which it is exposed. The models used to determine the ICA have been integrated into the Group's business processes and are used to enhance the management of the Group.

NOTES TO THE FINANCIAL STATEMENTS

1. OPERATING SEGMENTS

The Group is organised into four operating segments, Scandinavia, Canada, UK and Western Europe, and Emerging Markets with each operating segment managed by a Chief Executive Officer (CEO) who is directly accountable to the Group Chief Executive and the Board of Directors (who are combined to be the chief operating decision maker). Each of the CEOs is also a member of the Group Executive Committee. Scandinavia, Canada and UK and Western Europe represent the major geographical areas in which the Group operates through established businesses in mature markets. The UK is the Group's country of domicile and one of its principle markets. Western Europe includes operations in Ireland and Italy. Emerging Markets comprises the Group's operations in Latin America, Asia and Central and Eastern Europe and the Middle East. All operations are engaged in providing personal and commercial general insurance services. Central functions include the Group's internal reinsurance function and Group Corporate Centre.

The Group uses the following key measures to assess the performance of its operating segments:

- Net written premiums
- Underwriting result
- Combined operating ratio (COR).

Net written premiums is the key measure of revenue used in internal reporting. Underwriting result and COR are the key internal measures of profitability of the operating segments. The COR reflects the ratio of claims costs and expenses (including commission) to premiums, expressed as a percentage.

As described in the risk management section of the notes to the financial statements, sufficient net assets are maintained by each of the Group's subsidiaries to satisfy local regulatory and internal risk based capital requirements. In addition the Group monitors the Group's total capital position at all times. Assets and liabilities are reviewed by the chief operating decision maker at the Group level, and as such are not presented at the operating segment level.

All of these items are measured in accordance with the Group's accounting policies. Certain items included within the Group's investment result are allocated to the operating segments based on economic capital requirements.

Transfers or transactions between segments are entered into under normal commercial terms and conditions that would also be available to unrelated third parties.

Management basis

The management basis reflects the way management monitor the business. Operating result on a management basis comprises the underwriting result, the investment result and other activities.

Major components of underwriting result are net earned premiums, other operating income, net claims incurred, acquisition costs and other underwriting costs.

Other activities comprise administration expenses, ongoing investment in the Group's operations in Central and Eastern Europe and other expenses of **£73m** (2012: £89m), which includes the Group share in the loss after tax of its associates of **£2m** (2012: £6m). In addition there are investment expenses and charges of **£31m** (2012: £33m).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Segment revenue and results
Year ended 31 December 2013

	Scandinavia £m	Canada £m	UK and Western Europe £m	Emerging Markets £m	Central Functions £m	Total Group £m
Net written premiums	1,863	1,755	3,589	1,403	54	8,664
Underwriting result	225	10	(226)	46	2	57
Investment result	79	67	145	42	–	333
Insurance result	304	77	(81)	88	2	390
Other activities	(11)	(6)	(1)	(28)	(58)	(104)
Operating result (management basis)	293	71	(82)	60	(56)	286
Realised gains/(losses)						60
Unrealised (losses)/gains, investment impairment and foreign exchange						(28)
Interest costs						(117)
Amortisation of intangible assets						(42)
Pension net interest and administration costs						(15)
Solvency II costs						(20)
Reorganisation costs and impairment of intangible assets						(356)
Acquisitions and disposals						(12)
Loss before tax (per income statement)						(244)
Combined operating ratio (%)	88.1	99.3	106.6	96.9	–	99.6
Other segment items included in the income statement:						
Investment income	119	70	242	53	9	493
Investment expense and charges	(9)	(4)	(1)	(8)	(9)	(31)
Depreciation, amortisation and impairment	(52)	(39)	(316)	(110)	(4)	(521)

Year ended 31 December 2012 (Restated)

	Scandinavia £m	Canada £m	UK and Western Europe £m	Emerging Markets £m	Central Functions £m	Total Group £m
Net written premiums	1,791	1,614	3,689	1,237	22	8,353
Underwriting result	237	101	(8)	33	(5)	358
Investment result	94	61	233	45	(2)	431
Insurance result	331	162	225	78	(7)	789
Other activities	(9)	(7)	(1)	(32)	(73)	(122)
Operating result (management basis)	322	155	224	46	(80)	667
Realised gains/(losses)						79
Unrealised (losses)/gains, investment impairment and foreign exchange						(51)
Interest costs						(115)
Amortisation of intangible assets						(42)
Pension net interest and administration costs						(14)
Solvency II costs						(32)
Reorganisation costs and impairment of intangible assets						(24)
Acquisitions and disposals						(20)
Profit before tax (per income statement)						448
Combined operating ratio (%)	86.6	93.6	100.0	96.9	–	95.6
Other segment items included in the income statement:						
Investment income	133	63	262	49	8	515
Investment expense and charges	(8)	(4)	(1)	(11)	(9)	(33)
Depreciation, amortisation and impairment	(29)	(36)	(81)	(22)	(4)	(172)

No other material non cash expenses are reported internally by segment.

Net written premiums and non current assets from major geographical regions

	Net written premiums 2013 £m	Net written premiums 2012 £m	Non current assets 2013 £m	Non current assets 2012 £m
Scandinavia	**1,863**	1,791	**321**	432
Canada	**1,755**	1,614	**407**	453
UK	**3,041**	3,141	**205**	444
Western Europe	**548**	548	**137**	135
Emerging Markets	**1,403**	1,237	**248**	354
Central Functions	**54**	22	**320**	323
	8,664	8,353	**1,638**	2,141

Net written premiums are allocated to the countries in which the business is underwritten or managed.

Non current assets comprise goodwill and intangible assets, property and equipment, investment property and investments in associates.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. NET INVESTMENT RETURN

A summary of the gross investment income, net realised and net unrealised gains/(losses) included in the income statement is given below:

	Investment income		Net realised gains/(losses)		Net unrealised gains/(losses)		Impairments		Total investment return	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
Investment property	28	28	4	–	9	(24)	–	–	41	4
Equity securities:										
Available for sale	40	57	56	70	–	–	(2)	(12)	94	115
At fair value through the income statement	7	–	1	–	(1)	6	–	–	7	6
Debt securities:										
Available for sale	381	403	12	19	(1)	–	–	–	392	422
At fair value through the income statement	–	–	–	–	(15)	(15)	–	–	(15)	(15)
Other investments:										
Loans secured by mortgages	1	1	–	–	–	–	–	–	1	1
Other loans	2	2	1	–	–	–	(6)	(7)	(3)	(5)
Other	4	4	–	2	1	(4)	–	–	5	2
Deposits, cash and cash equivalents	26	15	–	(4)	(1)	(3)	–	–	25	8
Derivatives	4	5	(14)	(8)	(10)	(1)	–	–	(20)	(4)
Net investment return	493	515	60	79	(18)	(41)	(8)	(19)	527	534

The derivatives are used to provide a protection hedge for fair value changes of assets held within the investment portfolio.

During 2013 the accrued interest income on impaired financial assets was **£nil** (2012: £nil).

Direct operating expenses (including repairs and maintenance) arising from investment properties were not material in 2013 or 2012.

Unrealised capital gains and losses recognised directly in equity for available for sale assets are as follows:

	Net unrealised gains/(losses)		Net realised (gains)/losses transferred to income statement		Impairments transferred to income statement		Net movement recognised in equity	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
Equity securities	58	55	(56)	(70)	2	12	4	(3)
Debt securities	(331)	155	(12)	(19)	–	–	(343)	136
Other	(6)	(7)	–	–	6	7	–	–
Total	(279)	203	(68)	(89)	8	19	(339)	133

3. NET CLAIMS

	2013 £m	Restated 2012 £m
Gross claims paid	6,427	6,018
Gross changes in provisions for losses and loss adjustment expenses	226	(181)
Reinsurance recoveries on loss and loss adjustment expenses paid	(639)	(555)
Reinsurers' share of change in insurance contract liabilities for claims	(44)	107
Net claims	5,970	5,389

4. LOSS BEFORE TAX

The following items have been included in arriving at the loss before tax on operations:

Other operating income

	2013 £m	2012 £m
Engineering inspection fees	46	39
Administration fees	42	39
Instalment policy fees	14	18
Other fees	35	45
Other operating income	137	141

Engineering inspection fees are ancillary to the provision of engineering insurance cover.

Other operating expenses

	2013 £m	Restated 2012 £m
Administration and other expenses	76	92
Investment expenses and charges	31	33
Amortisation of intangible assets	42	42
Pension administration expenses	7	8
Solvency II costs	20	32
Reorganisation costs and impairment of intangible assets	356	24
Acquisition costs	12	20
Foreign exchange gains	–	(9)
Other operating expenses	544	242

Reorganisation costs and impairment of intangible assets includes impairments of software and goodwill following the Group business review.

Other lease payments

The operating lease payments recognised as an expense during the year are **£77m** (2012: £71m). The Group has no significant lease agreements that include contingent rent.

Finance costs

	2013 £m	Restated 2012 £m
Interest expense on loan capital	110	110
Other loan interest	7	5
Pension net interest costs	8	6
Finance costs	125	121

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Auditor's remuneration

	2013 £m	2012 £m
Fees payable to the auditor for audit of the Company's annual accounts	0.8	0.9
Fees payable to the auditor and its associates for other services:		
The audit of the Company's subsidiaries, pursuant to legislation	4.2	4.5
Audit related assurance services	1.7	0.4
Taxation compliance services	0.1	–
Taxation advisory services	–	0.2
Corporate finance services	–	0.2
Other services	0.4	9.5
Auditor's remuneration	7.2	15.7

Auditor's remuneration in respect of 2013 relates to fees payable to KPMG LLP, appointed as Group auditors in May 2013. The fees payable in 2012 relate to the Group's previous auditor, Deloitte LLP.

Audit related assurance services of £1.7m in 2013 includes extended audit work following the identification of financial and claims irregularities in Ireland (for further information refer to the Corporate Governance section), review of the regulatory returns and the half year press release.

Employee information

Staff costs for all employees comprise:

	2013 £m	Restated 2012 £m
Wages and salaries	975	932
Social security costs	126	127
Pension costs	105	89
Share based payments to Directors and employees	9	6
	1,215	1,154

The average number of employees during the year was as follows:

	2013 Number	2012 Number
Scandinavia	3,646	3,687
Canada	4,480	4,073
UK and Western Europe	9,585	9,846
Emerging Markets	6,161	6,218
	23,872	23,824

UK and Western Europe includes staff employed in Group Corporate Centre.

5. INCOME TAX EXPENSE

The tax amounts charged in the income statement are as follows:

	2013 £m	Restated 2012 £m
Current tax	140	139
Deferred tax	(46)	(18)
Taxation attributable to the Group	**94**	**121**

UK corporation tax is calculated at **23.2%** (2012: 24.5%) of the estimated assessable profit for the year. Since the Group operates around the world, it is subject to income taxes in many different jurisdictions. Taxation for jurisdictions other than the UK is calculated at the rates prevailing in those jurisdictions. Of the above taxation attributable to the Group **£21m** (2012: £2m) relates to UK and **£73m** (2012: £119m) to overseas.

The prior year tax charge has been restated. For full details of the restatement refer to note 27 'Retirement Benefit Obligations'.

	2013 £m	Restated 2012 £m
(Loss)/profit before tax	(244)	448
Tax at the UK rate of **23.2%** (2012: 24.5%)	(57)	110
Tax effect of:		
Income/gains not taxable	(14)	(17)
Expenses not deductible for tax purposes	44	17
Deferred tax assets not recognised	76	4
Release of tax provided in respect of prior periods	(24)	(22)
Different tax rates of subsidiaries operating in other jurisdictions	28	18
Effect of change in tax rates	37	7
Other	4	4
Income tax expense	**94**	**121**

Tax rates

The table below provides a summary of the current tax and deferred tax rates for the year in respect of the main tax jurisdictions in which the Group operates:

	2013		2012	
	Current Tax	Deferred Tax	Current Tax	Deferred Tax
UK	23.2%	20.0%	24.5%	23.0%
Canada	26.6%	26.6%	26.5%	26.5%
Denmark	25.0%	22.0%	25.0%	25.0%
Ireland	12.5%	12.5%	12.5%	12.5%
Sweden	22.0%	22.0%	26.3%	22.0%

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

6. EARNINGS PER SHARE ATTRIBUTABLE TO THE ORDINARY SHAREHOLDERS OF THE PARENT COMPANY

The earnings per ordinary share are calculated by reference to the profit attributable to the ordinary shareholders and the weighted average number of shares in issue during the year.

Basic

Basic earnings per share is calculated by dividing the profit attributable to the ordinary shareholders of the Parent Company by the weighted average number of ordinary shares in issue during the period, excluding ordinary shares purchased by various share trusts and held as own shares.

	2013 £m	Restated 2012 £m
(Loss)/profit attributable to the shareholders of the Parent Company	**(347)**	320
Less cumulative preference dividends	**(9)**	(9)
(Loss)/profit for the calculation of earnings per share	**(356)**	311
Weighted average number of ordinary shares in issue (thousands)	**3,632,180**	3,534,577
Basic earnings per share (p)	**(9.8)**	8.8

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Parent Company has share options and contingently issuable shares as categories of dilutive potential ordinary shares.

The calculation is performed for the dilutive potential ordinary shares to determine the number of shares that could have been issued at fair value (determined as the average annual market share price of the Parent Company's shares) based on the monetary value of the subscription rights attached to outstanding dilutive potential ordinary shares. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the dilutive potential ordinary shares.

	2013 £m	Restated 2012 £m
(Loss)/profit for the calculation of earnings per share	**(356)**	311
Weighted average number of ordinary shares in issue (thousands)	**3,632,180**	3,534,577
Adjustments for share options and contingently issuable shares (thousands)	**–**	41,954
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**3,632,180**	3,576,531
Diluted earnings per share (p)	**(9.8)**	8.7

The weighted average number of anti-dilutive share options and awards excluded from the calculation of diluted earnings per share above is **43,543,318** (2012: nil).

7. DIVIDENDS

	2013 p	2012 p	2013 £m	2012 £m
Ordinary dividend:				
Final paid in respect of prior year	**3.90**	5.82	**140**	206
Interim paid in respect of current year	**2.28**	3.41	**83**	121
			223	327
Preference dividend			**9**	9
			232	336

The Group subsidiaries may be subject to restrictions on the amount of dividends they can pay to shareholders as a result of local regulatory requirements. However, based on the information currently available, the Group does not believe that such restrictions materially impact the ability to meet obligations or pay dividends.

8. GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill £m	Intangible assets arising from acquired claims provisions £m	Software development £m	Other £m	Total £m
Cost					
At 1 January 2013	792	123	957	374	2,246
Additions and transfers	12	–	126	13	151
Disposals and transfers	–	–	(2)	(6)	(8)
Exchange adjustment	(38)	2	(10)	(26)	(72)
At 31 December 2013	766	125	1,071	355	2,317
Accumulated amortisation					
At 1 January 2013	–	115	401	155	671
Amortisation charge	–	2	109	39	150
Amortisation on disposals and transfers	–	–	(2)	(3)	(5)
Exchange adjustment	–	2	(8)	(12)	(18)
At 31 December 2013	–	119	500	179	798
Accumulated impairment					
At 1 January 2013	72	–	14	–	86
Impairment charge	106	–	225	–	331
Exchange adjustment	(1)	–	–	–	(1)
At 31 December 2013	177	–	239	–	416
Net carrying amount at 31 December 2013	589	6	332	176	1,103

Other intangible assets include customer lists, renewal rights and acquired brands.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

	Goodwill £m	Intangible assets arising from acquired claims provisions £m	Software development £m	Other £m	Total £m
Cost					
At 1 January 2012	734	122	894	321	2,071
Additions and transfers	67	5	140	63	275
Disposals and transfers	–	–	(75)	(1)	(76)
Exchange adjustment	(9)	(4)	(2)	(9)	(24)
At 31 December 2012	792	123	957	374	2,246
Accumulated amortisation					
At 1 January 2012	–	117	394	128	639
Amortisation charge	–	2	82	32	116
Amortisation on disposals	–	–	(75)	(1)	(76)
Exchange adjustment	–	(4)	–	(4)	(8)
At 31 December 2012	–	115	401	155	671
Accumulated impairment					
At 1 January 2012	71	–	2	–	73
Impairment charge	–	–	12	–	12
Exchange adjustment	1	–	–	–	1
At 31 December 2012	72	–	14	–	86
Net carrying amount at 31 December 2012	720	8	542	219	1,489

Amortisation expense of **£109m** (2012: £82m) has been charged to underwriting and policy acquisition costs with the remainder recognised in other operating expenses.

Additions of software development comprise **£14m** (2012: £12m) of external software and **£112m** (2012: £128m) of internally developed software.

As part of the Group business review, a decision has been made to refine and rationalise IT infrastructure. As a result of this decision, a software impairment charge of **£221m** (2012: £nil) has been recognised within other operating expenses.

Further software impairment charges of **£4m** (2012: £12m) have been charged to underwriting and policy acquisition costs during the year due to the integration of operational systems in Scandinavia.

Impairment tests for goodwill

Goodwill is allocated to the Group's cash generating units (CGUs), which are contained within the following operating segments as follows:

	2013 £m	2012 £m
Scandinavia	**161**	163
Canada	**216**	230
UK and Western Europe	**79**	92
Emerging Markets	**133**	235

When testing for impairment, the recoverable amount of a CGU is determined based on value in use calculations. These calculations use cashflow projections based on operating plans approved by management covering a three year period. Cashflows beyond this period are extrapolated using the estimated growth rates which management deem appropriate for the CGU.

A number of other assumptions and estimates are involved in the application of a cashflow model to forecast operating cashflows, premium volumes, expenses and working capital requirements. Forecasts of future cashflows are based on the best estimates of future premiums, operating expenses and taxes using historical trends, general geographical market conditions, industry trends and forecasts and other available information. These assumptions are subject to review by management. The cashflow forecasts are adjusted by appropriate discount rates. Discount rates used in 2013 are within a range of **8%** to **24%** (2012: 6% to 24%), are post tax and reflect specific risks relating to the relevant segments at the date of evaluation. The weighted average growth rates used in 2013 are within a range of **0%** to **15%** (2012: 2% to 13%).

Goodwill impairment charges of **£106m** (2012: £nil) have been recognised within other operating expenses, split between Emerging Markets £90m and UK and Western Europe £16m.

In Emerging Markets the impairment charge reflects slower than anticipated economic growth in Poland and increased economic uncertainty in Argentina. In UK and Western Europe the impairment charge reflects plans to contract some lines of business in the UK and reduced economic growth projections in Italy.

Sensitivity analysis

The Group's impairment tests have identified the goodwill of the Irish CGU as having headroom of £33m. Headroom is defined as the recoverable amount less the carrying value of the CGU, negative headroom indicates impairment. A reasonable change in key assumptions could potentially cause the Irish CGU to be impaired.

The following sensitivity analysis shows the available headroom compared to the carrying value for reasonable changes to the key assumptions used in the impairment review of the Irish CGU which included a terminal growth rate of 1.7% and discount rate of 10.1%.

	Headroom £m
Headroom Sensitivity	
1% decrease in terminal value growth rate	8
1% increase to discount rate	(2)
1% increase in projected COR for all years	(5)

9. PROPERTY AND EQUIPMENT

	Group occupied property – land and buildings £m	Other £m	Total £m
Cost/valuation			
At 1 January 2013	153	344	497
Additions	21	18	39
Disposal of subsidiaries	–	(1)	(1)
Disposals	–	(16)	(16)
Revaluation adjustments	2	–	2
Exchange adjustment	4	(12)	(8)
Transfer to investment property	(5)	–	(5)
Transfer to assets held for sale	(110)	–	(110)
At 31 December 2013	65	333	398
Accumulated depreciation			
At 1 January 2013	–	225	225
Depreciation charge	–	34	34
Depreciation on disposals	–	(14)	(14)
Exchange adjustment	–	(7)	(7)
At 31 December 2013	–	238	238
Net carrying amount at 31 December 2013	65	95	160

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

	Group occupied property – land and buildings £m	Other £m	Total £m
Cost/valuation			
At 1 January 2012	149	381	530
Additions	1	35	36
Acquisition of subsidiaries	5	5	10
Disposals	(2)	(71)	(73)
Exchange adjustment	–	(6)	(6)
At 31 December 2012	153	344	497
Accumulated depreciation			
At 1 January 2012	–	255	255
Depreciation charge	–	35	35
Depreciation on disposals	–	(61)	(61)
Exchange adjustment	–	(4)	(4)
At 31 December 2012	–	225	225
Net carrying amount at 31 December 2012	153	119	272

Other property and equipment incorporates fixtures, fittings, and other equipment.

Depreciation expenses of **£34m** (2012: £35m) have been charged to underwriting and policy acquisition costs.

The carrying amount of Group occupied property that would have been recognised had the assets been carried under the cost model at 31 December 2013 is **£58m** is (2012: £140m).

The movement in the Group occupied property reserve is shown below:

	2013 £m	2012 £m
Group occupied property reserve at 1 January	**22**	31
Fair value gains	**2**	3
Transfers	**(1)**	(12)
Group occupied property reserve at 31 December	**23**	22

10. INVESTMENT PROPERTY

Investment property consists of **£331m** (2012: £340m) freehold and long leasehold buildings.

The movement in the carrying value of investment property is detailed below:

	2013 £m	2012 £m
Investment property at 1 January	**340**	362
Additions from subsequent expenditure	**2**	2
Transfer from property and equipment	**5**	–
(Sales)/purchases	**(24)**	1
Fair value gains/(losses)	**9**	(24)
Exchange adjustment	**(1)**	(1)
Investment property at 31 December	**331**	340

Investment properties are included in the Group's investment portfolio to provide investment returns over the longer term in accordance with the Group's investment strategy. Investment properties are managed by external managers.

The lease agreements are normally drawn up in line with local practice and the Group has no significant exposure to leases that include contingent rents.

11. INVESTMENTS IN ASSOCIATES

The Group has the following investments in associates:

	Country	Ordinary shareholding
Royal Sundaram Alliance Insurance Company Limited	India	26.0%
Syn Mun Kong Public Limited Company	Thailand	22.0%
Caunce O'Hara & Company Limited	United Kingdom	30.0%
Shaw Sabey & Associates Limited	Canada	25.0%
Jones Brown Inc	Canada	30.0%

Syn Mun Kong Public Limited Company is listed on the Stock Exchange of Thailand. The fair value of the Group's holding at 31 December 2013 is **£34m** (2012: £28m).

Summarised below are the assets, liabilities, revenue and profit and loss of the companies above:

	2013 £m	2012 £m
Total assets	**490**	493
Total liabilities	**376**	398
Total revenue	**375**	359
Goodwill on acquisition	**17**	17
Profit for the year after tax	**26**	8

The Group's share of net assets and profit and loss are accounted for under the equity method.

Some associates have been omitted from this note to avoid providing particulars of excessive length but none materially affects the results or assets of the Group. A full list of the Group's associates will be filed at Companies House.

12. FINANCIAL ASSETS

	2013 £m	2012 £m
Equity securities	**862**	839
Debt securities	**11,251**	11,724
Financial assets measured at fair value	**12,113**	12,563
Loans and receivables	**146**	97
Total financial assets	**12,259**	12,660

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

13. FAIR VALUE MEASUREMENTS RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION

Fair value measurements

The following table provides an analysis of financial instruments and other items that are measured subsequent to initial recognition at fair value as well as financial liabilities not measured at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable, as explained more fully in Significant Accounting Policies. The table does not include items not measured at fair value if the carrying value is a reasonable approximation of fair value.

	Fair value hierarchy 2013			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Group occupied property – land and buildings	–	–	65	65
Investment property	–	–	331	331
Available for sale financial assets:				
Equity securities	757	7	63	827
Debt securities	11,047	167	10	11,224
Financial assets at fair value through the income statement:				
Equity securities	1	–	34	35
Debt securities	–	–	27	27
	11,805	174	530	12,509
Derivative assets:				
At fair value through the income statement	–	27	–	27
Designated as accounting hedges	–	31	–	31
Total assets measured at fair value	11,805	232	530	12,567
Derivative liabilities:				
At fair value through the income statement	–	28	–	28
Designated as accounting hedges	–	1	–	1
Total liabilities measured at fair value	–	29	–	29
Loan capital	–	1,440	17	1,457
Fair value of liabilities not measured fair value	–	1,440	17	1,457

	Fair value hierarchy 2012			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Group occupied property – land and buildings	–	–	153	153
Investment property	–	–	340	340
Available for sale financial assets:				
Equity securities	762	8	35	805
Debt securities	11,522	154	10	11,686
Financial assets at fair value through the income statement:				
Equity securities	1	–	33	34
Debt securities	–	–	38	38
	12,285	162	609	13,056
Derivative assets:				
At fair value through the income statement	–	32	–	32
Designated as accounting hedges	–	14	–	14
Total assets measured at fair value	12,285	208	609	13,102
Derivative liabilities:				
At fair value through the income statement	–	36	–	36
Designated as accounting hedges	–	6	–	6
Total liabilities measured at fair value	–	42	–	42
Loan capital	–	1,493	17	1,510
Fair value of liabilities not measured fair value	–	1,493	17	1,510

There were no transfers between Level 1, Level 2 and Level 3 during 2013 or 2012.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

A reconciliation of Level 3 fair value measurements of financial assets is shown in the table below. There are no Level 3 financial liabilities measured at fair value.

	Available for sale investments		Investments at fair value through the income statement		
	Equity securities £m	Debt securities £m	Equity securities £m	Debt securities £m	Total £m
Level 3 financial assets at 1 January 2012	28	10	21	55	114
Total gains/(losses) recognised in:					
Income statement	–	–	6	(15)	(9)
Other comprehensive income	1	–	–	–	1
Purchases	6	–	5	–	11
Exchange adjustment	–	–	1	(2)	(1)
Level 3 financial assets at 1 January 2013	**35**	**10**	**33**	**38**	**116**
Total gains/(losses) recognised in:					
Income statement	–	–	(4)	(15)	(19)
Other comprehensive income	4	–	–	–	4
Purchases	30	–	5	3	38
Disposals	(6)	–	–	–	(6)
Exchange adjustment	–	–	–	1	1
Level 3 financial assets at 31 December 2013	**63**	**10**	**34**	**27**	**134**

Of the total gains/(losses) for the period recognised in the income statement (shown in the reconciliation above), losses of **£19m** (2012: £9m) relates to assets held at the end of the reporting period.

Of the total gains/(losses) for the period recognised in other comprehensive income (shown in the reconciliation above), **£4m** (2012: £1m) relate to assets held at the end of the reporting period and is reported in movements in the revaluation reserves in the statement of changes in equity.

Group occupied property and investment property

In line with the professional standards of qualified external valuers, Group occupied properties are generally valued on a vacant possession basis, unless more relevant recent market data is available and investment properties are valued at their highest and best use.

Group occupied properties and investment properties are classified as Level 3 assets in the fair value hierarchy.

The external independent valuers have appropriate recognised professional qualifications and recent experience in the location and category of the properties being valued.

The valuations of buildings with vacant possession are based on the comparative method of valuation with reference to sales of other vacant buildings. Fair value would change based on the locational qualities and physical building characteristics (principally condition, size, specification and layout) as appropriate.

Investment properties are valued using discounted cashflow models which takes into account the net present value of cashflows to be generated from the properties. The cashflow streams reflect the current rent (the gross rent) payable to lease expiry, at which point it is assumed that each unit will be re–let at its estimated rental value. Allowances have been made for voids and rent free periods where applicable. The appropriate rent to be capitalised is selected on the basis of the location of the building, its quality, tenant credit quality and lease terms amongst other factors.

These cashflows are discounted at an appropriate rate of interest to determine their present value.

In both cases the estimated fair value would increase/(decrease) if:

- The estimated rental value is higher/(lower)
- Void periods were shorter/(longer)
- The occupancy rate were higher/(lower)
- Rent free periods were shorter/(longer)
- The discount rates were lower/(higher)

Loan capital

The Group's loan capital instruments are classified as Level 2 financial liabilities with the exception of the Subordinated guaranteed US$ bonds which are classified as Level 3 financial liabilities.

The fair value measurement of these Level 2 financial liabilities is based on pricing obtained from a range of financial intermediaries who base their valuations on recent transactions of the Group's loan capital instruments and other observable market inputs such as applicable risk free rates and appropriate credit risk spreads.

The fair value measurement of the Level 3 financial liabilities is also obtained from a range of financial intermediaries and is an indicative valuation based on the applicable risk free rate and appropriate credit risk spreads.

14. REINSURERS' SHARE OF INSURANCE CONTRACT LIABILITIES

	2013 £m	2012 £m
Reinsurers' share of provision for unearned premiums	366	299
Reinsurers' share of provisions for losses and loss adjustment expenses	1,660	1,650
Total reinsurers' share of insurance contract liabilities	**2,026**	**1,949**
To be settled within 12 months	976	948
To be settled after 12 months	1,050	1,001

The following changes have occurred in the reinsurer's share of provision for unearned premiums during the year:

	2013 £m	2012 £m
Reinsurers' share of provision for unearned premiums at 1 January	299	302
Premiums ceded to reinsurers	1,158	1,044
Reinsurers' share of premiums earned	(1,077)	(1,042)
Changes in reinsurance asset	81	2
Reinsurers' share of portfolio transfers and (disposals)/acquisitions of subsidiaries	(2)	6
Exchange adjustment	(12)	(11)
Reinsurers' share of provision for unearned premiums at 31 December	**366**	**299**

The following changes have occurred in the reinsurers' share of provision for losses and loss adjustment expenses during the year:

	2013 £m	2012 £m
Reinsurers' share of provisions for losses and loss adjustment expenses at 1 January	1,650	1,771
Reinsurers' share of total claims incurred	683	448
Total reinsurance recoveries received	(640)	(555)
Reinsurers' share of portfolio transfers and (disposals)/acquisitions of subsidiaries	(6)	22
Exchange adjustment	(56)	(42)
Other movements	29	6
Reinsurers' share of provisions for losses and loss adjustment expenses at 31 December	**1,660**	**1,650**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

15. INSURANCE AND REINSURANCE DEBTORS

	2013 £m	2012 £m
Insurance debtors comprise:		
Due from policyholders	1,616	1,654
Due from intermediaries	1,741	1,747
Total insurance debtors	3,357	3,401
Reinsurance debtors	236	191
Total insurance and reinsurance debtors	3,593	3,592

16. OTHER DEBTORS AND OTHER ASSETS

	2013 £m	2012 £m
Derivatives designated as accounting hedges	31	14
Other derivatives	27	32
Other debtors	342	357
Pension scheme surplus	104	55
Accrued interest and rent	158	166
Prepayments	125	129
Total other debtors and other assets	787	753
To be settled within 12 months	643	619
To be settled after 12 months	144	134

17. CASH AND CASH EQUIVALENTS

The interest bearing financial assets included in cash and cash equivalents had an effective interest rate of **2.08%** (2012: 1.17%) and had an average maturity of **26 days** (2012: 34 days).

18. TOTAL COMPREHENSIVE EXPENSE

Year ended 31 December 2013

	Revaluation reserves £m	Translation reserve £m	Retained earnings £m	Shareholders' equity £m	Non controlling interests £m	Total equity £m
(Loss)/profit for the year	–	–	(347)	(347)	9	(338)
Exchange losses net of tax	–	(116)	(10)	(126)	(4)	(130)
Share of associates other comprehensive expense	(1)	–	(1)	(2)	–	(2)
Fair value losses net of tax	(257)	–	–	(257)	–	(257)
Remeasurement of net defined benefit pension liability net of tax	–	–	17	17	–	17
Movement in property revaluation net of tax	2	–	–	2	–	2
Other comprehensive (expense)/income for the year	(256)	(116)	6	(366)	(4)	(370)
Total comprehensive (expense)/income for the year	(256)	(116)	(341)	(713)	5	(708)

Year ended 31 December 2012 (Restated)

	Revaluation reserves £m	Translation reserve £m	Retained earnings £m	Shareholders' equity £m	Non controlling interests £m	Total equity £m
Profit for the year	–	–	320	320	7	327
Exchange gains/(losses) net of tax	(5)	(61)	–	(66)	(4)	(70)
Share of associates other comprehensive income	1	–	–	1	–	1
Fair value gains/(losses) net of tax	113	–	(3)	110	1	111
Remeasurement of net defined benefit pension liability net of tax	–	–	(137)	(137)	–	(137)
Movement in property revaluation net of tax	4	–	–	4	–	4
Other comprehensive income/(expense) for the year	113	(61)	(140)	(88)	(3)	(91)
Total comprehensive income/(expense) for the year	113	(61)	180	232	4	236

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

19. SHARE CAPITAL

The issued share capital of the Parent Company is fully paid and consists of two classes; ordinary shares with a nominal value of 27.5p each and preference shares with a nominal value of £1 each. The issued share capital at 31 December 2013 is:

	2013 £m	2012 £m
Issued and fully paid		
3,681,798,995 ordinary shares of 27.5p each (2012: 3,595,951,315 ordinary shares of 27.5p each)	1,012	989
125,000,000 preference shares of £1 each (2012: 125,000,000 preference shares of £1 each)	125	125
	1,137	1,114

During 2013, the Company issued a total of **85,847,680** new ordinary shares ranking pari passu with ordinary shares in issue (2012: 64,930,085 new ordinary shares), on the exercise of employee share options and in respect of employee share awards and under the scrip dividend scheme. The number of ordinary shares in issue, their nominal value and the associated share premiums are as follows:

	Number of shares	Nominal value £m	Restated Share premium £m
At 1 January 2012 as previously reported	3,531,021,230	971	1,144
Reserve transfer (see below)	–	–	(420)
At 1 January 2012 restated	3,531,021,230	971	724
Issued in respect of employee share options and employee share awards	19,335,754	6	5
Issues in lieu of dividends as previously reported	45,594,331	12	(12)
At 1 January 2013	3,595,951,315	989	717
Issued in respect of employee share options and employee share awards	19,961,699	5	5
Issues in lieu of dividends	65,885,981	18	(18)
At 31 December 2013	3,681,798,995	1,012	704

Rights attaching to the shares

The preference shares are not redeemable but the holders of the preference shares have preferential rights over the holders of ordinary shares in respect of dividends and of the return of capital in the event of the winding up of the Parent Company.

Holders of preference shares are entitled to a cumulative preferential dividend of 7.375% per annum, payable in half yearly instalments out of the profits available for distribution and resolved by the Board, to be distributed in priority to any payment of dividend to other shareholders (other than any dividend not exceeding 0.1p per share). Preference shareholders have no further right to participate in the profits of the Parent Company.

Full information on the rights attaching to shares is in the Parent Company's Articles of Association which are available on the Group's website.

Employee share schemes

5,528,875 ordinary shares (2012: 6,153,749 ordinary shares) are held by various employee share trusts which may subsequently be transferred to employees (including Executive Directors) to satisfy options exercised under the Group employee share option plans and shares awards vesting to Group employees under the long-term incentive plans and under the Sharebuild scheme. These shares are presented as own shares.

At 31 December 2013, the total number of options over ordinary shares outstanding under the Group employee share option plans is **46,281,370** (2012: 51,342,336) and the total number of potential shares outstanding under the long-term incentive plan and under the Sharebuild scheme is **65,640,637** ordinary shares (2012: 71,975,051 ordinary shares). Further information on the employee share schemes is provided in note 28 and in the remuneration report within the corporate governance section.

Reserve Transfer

A transfer between share premium and retained profit has been made as a result of retrospectively treating scrip dividends as bonus issues of shares in order to bring the Group into line with current market practice for such transactions.

20. LOAN CAPITAL

	2013 £m	2012 £m
Subordinated guaranteed US$ bonds	13	14
Subordinated guaranteed dated notes	494	493
Total dated loan capital	507	507
Subordinated guaranteed perpetual bonds	342	334
Subordinated guaranteed perpetual notes	460	470
Total loan capital	1,309	1,311

The subordinated guaranteed US$ bonds ('Yankee Bonds') have a nominal value of $24m and a redemption date of 15 October 2029. The rate of interest payable on the Yankee Bonds is 8.95%.

The subordinated guaranteed dated notes were issued on 20 May 2009 at a fixed rate of 9.375%. The nominal £500m bonds have a redemption date of 20 May 2039. The Parent Company has the option to repay the notes on specific dates from 20 May 2019. If the notes are not repaid on that date, the rate of interest would be reset at a rate of 8.475% plus the appropriate benchmark gilt yield for a further five year period.

The subordinated guaranteed perpetual bonds have a nominal value of £375m and the rate of interest payable is 6.701% of the nominal value. The Group has the option to repay the bonds on specific dates starting 12 July 2017. If the bonds are not repaid, from that date, the interest rate payable would be LIBOR plus 2.51%.

The subordinated guaranteed perpetual notes have a nominal value of £450m and pay an annual coupon of 8.50% with an option to call the notes, or if not called for the coupon rate to be reset, on 8 December 2014 and every five years thereafter.

The bonds and the notes are contractually subordinated to all other creditors of the Parent Company such that in the event of a winding up or of bankruptcy, they are to be repaid only after the claims of all other creditors have been met.

There have been no defaults on any of the bonds or notes during the year. The Group has the option to defer interest payments on the bonds and notes but to date has not exercised this right. The right to defer interest on the perpetual bonds and notes would no longer be available if they fail to meet certain requirements set by the Group's regulators in the future.

The aggregate fair value of total loan capital at 31 December 2013 is **£1,457m** (2012: £1,510m).

21. INSURANCE CONTRACT LIABILITIES

	2013 £m	2012 £m
Provision for unearned premiums	3,853	3,852
Provisions for losses and loss adjustment expenses	11,148	11,002
Total insurance contract liabilities	15,001	14,854

The provision for unearned premiums is shown net of deferred acquisition costs of **£934m** (2012: £938m). The movement in deferred acquisition costs during 2013 is attributed to **£1,266m** (2012: £1,187m) acquisition costs deferred during the year, **£1,224m** (2012: £1,114m) amortisation charged during the year, **£39m** exchange losses (2012: £13m exchange losses), and a **£7m** (2012: £nil) reduction due to other movements.

The reinsurers' share of deferred acquisition costs is included within accruals and deferred income.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Provision for unearned premiums, gross of acquisition costts

	2013 £m	2012 £m
Provision for unearned premiums at 1 January	4,790	4,514
Premiums written	9,822	9,397
Less premiums earned	(9,671)	(9,209)
Changes in provision for unearned premiums	151	188
Gross portfolio transfers and acquisitions	(1)	153
Exchange adjustment	(153)	(65)
Provision for unearned premiums (gross of acquisition costs) at 31 December	4,787	4,790

Provisions for losses and loss adjustment expenses

The following changes have occurred in the provisions for losses and loss adjustment expenses during the year:

	2013 £m	Restated 2012 £m
Provisions for losses and loss adjustment expenses at 1 January	11,002	11,097
Gross claims incurred and loss adjustment expenses	6,653	5,837
Total claims payments made in the year net of salvage and other recoveries	(6,427)	(6,018)
Gross portfolio transfers, acquisitions and disposals	2	160
Exchange adjustment	(267)	(159)
Other movements	185	85
Provisions for losses and loss adjustment expenses at 31 December	11,148	11,002

Assumptions

The total value of provisions for losses and loss adjustment expenses less related reinsurance recoveries before discounting is **£9,998m** (2012: £9,943m).

Claims on certain classes of business (excluding annuities) have been discounted as follows:

		Discount rate		Average number of years to settlement from reporting date	
	Category	2013 %	2012 %	2013 Years	2012 Years
UK	Asbestos and environmental	4.0	5.0	11	12
Scandinavia	Disability	3.7	3.7	5	6

In determining the average number of years to ultimate claims settlement, estimates have been made based on the underlying claims settlement patterns.

As at 31 December 2013, the value of the discount on net reserves is **£510m** (2012: £591m) excluding annuities and periodic payment orders. All other factors remaining constant, a decrease of 1% in the discount rates would reduce the value of the discount by approximately £105m. The sensitivity calculation has taken into consideration the undiscounted reserves for each class of business and the respective average settlement period.

Claims development tables

The tables below present changes in the historical provisions for losses and loss adjustment expenses that were established in 2003 and the provisions for losses and loss adjustment expenses arising in each subsequent accident year. The tables are presented at current year average exchange rates on an undiscounted basis and have been adjusted for operations that have been disposed of.

The top triangle of the tables presents the estimated provisions for ultimate incurred losses and loss adjustment expenses for each accident year as at the end of each reporting period.

The lower triangle of the tables presents the amounts paid against those provisions in each subsequent accounting period.

The estimated provisions for ultimate incurred losses change as more information becomes known about the actual losses for which the initial provisions were set up and as the rates of exchange change.

Consolidated claims development table gross of reinsurance

	2003 and prior £m	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	**2013 £m**	Total £m
Estimate of cumulative claims												
At end of accident year	10,928	2,885	3,031	2,704	3,075	2,974	2,839	3,827	3,482	3,451	**3,667**	
One year later	11,143	2,629	2,941	2,730	3,065	2,990	2,914	3,799	3,523	3,457		
Two years later	11,346	2,439	2,821	2,630	3,053	2,964	2,877	3,752	3,534			
Three years later	11,662	2,326	2,694	2,548	2,978	2,924	2,838	3,786				
Four years later	11,464	2,245	2,617	2,491	2,928	2,915	2,863					
Five years later	11,151	2,195	2,547	2,490	2,910	2,876						
Six years later	11,096	2,159	2,525	2,440	2,904							
Seven years later	10,995	2,112	2,500	2,409								
Eight years later	10,856	2,088	2,472									
Nine years later	10,773	2,077										
Ten years later	10,809											
Claims paid												
One year later	3,000	972	1,287	1,106	1,405	1,491	1,414	2,177	1,625	1,616		
Two years later	1,507	320	371	409	461	464	489	546	572			
Three years later	1,013	208	213	217	300	279	294	336				
Four years later	720	169	163	196	193	206	220					
Five years later	584	101	119	137	154	134						
Six years later	459	90	94	89	92							
Seven years later	424	33	45	62								
Eight years later	270	32	27									
Nine years later	202	19										
Ten years later	311											
Cumulative claims paid	8,490	1,944	2,319	2,216	2,605	2,574	2,417	3,059	2,197	1,616		
2013 redundancy/(deficiency)	(36)	11	28	31	6	39	(25)	(34)	(11)	(6)		3
Reconciliation to the statement of financial position												
Current year provision before discounting	2,319	133	153	193	299	302	446	727	1,337	1,841	**3,667**	11,417
Exchange adjustment to closing rates												(462)
Discounting												(578)
Annuities												771
Present value recognised in the consolidated statement of financial position												11,148

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Consolidated claims development table net of reinsurance

	2003 and prior £m	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	**2013 £m**	Total £m
Estimate of cumulative claims												
At end of accident year	8,357	2,313	2,484	2,511	2,611	2,671	2,551	2,705	2,967	3,096	**3,192**	
One year later	8,746	2,178	2,355	2,493	2,607	2,673	2,589	2,731	2,961	3,096		
Two years later	8,679	1,987	2,266	2,396	2,579	2,665	2,560	2,708	2,939			
Three years later	9,003	1,901	2,191	2,310	2,515	2,635	2,535	2,738				
Four years later	8,863	1,832	2,107	2,256	2,469	2,618	2,558					
Five years later	8,691	1,783	2,042	2,233	2,453	2,591						
Six years later	8,584	1,746	2,016	2,202	2,453							
Seven years later	8,450	1,701	1,992	2,176								
Eight years later	8,304	1,683	1,966									
Nine years later	8,215	1,669										
Ten years later	8,216											
Claims paid												
One year later	2,319	730	966	1,007	1,168	1,328	1,294	1,423	1,393	1,433		
Two years later	1,143	263	297	356	371	396	409	449	460			
Three years later	802	186	171	193	270	256	261	261				
Four years later	477	142	144	176	167	194	206					
Five years later	463	90	104	120	140	116						
Six years later	354	72	81	89	74							
Seven years later	278	27	45	57								
Eight years later	191	28	24									
Nine years later	175	19										
Ten years later	258											
Cumulative claims paid	6,460	1,557	1,832	1,998	2,190	2,290	2,170	2,133	1,853	1,433		
2013 redundancy/(deficiency)	(1)	14	26	26	–	27	(23)	(30)	22	–		61
Reconciliation to the statement of financial position												
Current year provision before discounting	1,756	112	134	178	263	301	388	605	1,086	1,663	**3,192**	9,678
Exchange adjustment to closing rates												(369)
Discounting												(510)
Annuities												689
Present value recognised in the consolidated statement of financial position												**9,488**

22. INSURANCE AND REINSURANCE LIABILITIES

	2013 £m	2012 £m
Direct insurance creditors	296	289
Reinsurance creditors	347	269
Total insurance and reinsurance liabilities	643	558

23. BORROWINGS

The Group's borrowings of **£301m** (2012: £296m) primarily relate to loans from credit institutions under a repurchase agreement. Further information is contained in the Risk Management section.

At 31 December 2013 total unsecured loans from credit institutions under committed credit facilities of **£500m** (2012: £500m) are available to the Group. There are no amounts outstanding at 31 December 2013 (2012: £nil). The facility expires in 2017.

At 31 December 2013 the Group has in place a **US$1bn** (2012: US$1bn) Euro commercial paper programme. There are no amounts outstanding at 31 December 2013 (2012: £nil).

The Articles of Association of the Group defines a cap on borrowing limits. This cap is not being amended at the 2014 AGM. At 31 December 2013 the cap on borrowing limits is **£3,457m** (2012: £4,484m) of which **£1,641m** (2012: £1,636m) had been utilised.

24. CURRENT AND DEFERRED TAX

Current Tax

	Asset		Liability	
	2013 £m	2012 £m	2013 £m	2012 £m
To be settled within 12 months	40	58	19	14
To be settled after 12 months	20	18	38	44
	60	76	57	58

Deferred Tax

	2013 £m	2012 £m
Deferred tax assets	302	285
Deferred tax liabilities	(82)	(139)
Net deferred tax position at 31 December	220	146

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

The following are the major deferred tax assets and liabilities recognised by the Group and their movements during the year:

	2013 £m	2012 £m
Net unrealised gains on investments	3	(34)
Claims equalisation and other catastrophe reserves	(101)	(91)
Intangibles capitalised	(40)	(38)
Deferred acquisition costs	(32)	(30)
Tax losses and unused tax credits	221	141
Other deferred tax reliefs	28	104
Net insurance contract liabilities	3	(27)
Retirement benefit obligations	40	67
Provisions and other temporary differences	98	54
Net deferred tax position at 31 December	220	146

The movement in the net deferred tax assets recognised by the Group was as follows:

	2013 £m	Restated 2012 £m
Net deferred tax position at 1 January	146	147
Amounts credited to income statement	67	24
Amounts credited/(charged) to other comprehensive income	38	(4)
Amounts charged to equity	(2)	(2)
Net arising on acquisition/disposal of subsidiaries and other transfers	2	(9)
Exchange adjustments	(5)	(2)
Effect of change in tax rates – income statement	(21)	(6)
– other comprehensive income	(4)	(2)
– equity	(1)	–
Net deferred tax position at 31 December	220	146

The prior year tax charge has been restated. For full details of the restatement refer to note 27 'Retirement Benefit Obligations'.

The current tax and deferred income tax (charged)/credited to each component of other comprehensive income is as follows:

	Current tax		Deferred tax		Total	
	2013 £m	2012 £m	2013 £m	Restated 2012 £m	2013 £m	Restated 2012 £m
Exchange gains and losses	1	1	–	(3)	1	(2)
Fair value gains/(losses) on available for sale financial assets	35	23	47	(44)	82	(21)
Remeasurement of net defined benefit pension liability	–	–	(13)	41	(13)	41
Total credited/(charged) to other comprehensive income	36	24	34	(6)	70	18

The aggregate current tax and deferred tax relating to items that are charged directly to equity is **£(1)m** (2012: £(2)m).

At the end of the reporting period, the Group has unused tax losses of **£2,766m** (2012: £2,130m) and unused tax credits of **£16m** (2012: £15m) available for offset against future profits. A deferred tax asset of **£221m** (2012: £141m) has been recognised in respect of losses and unused tax credits. No deferred tax asset has been recognised in respect of **£1,685m** (2012: £1,568m) tax losses and unused tax credits of **£13m** (2012: £11m) due to the unpredictability of future profit streams. Tax losses include **£146m** (2012: £176m) which will expire between 2014 and 2033, of which **£59m** (2012: £68m) have been recognised for deferred tax. Other tax losses and unused credits may be carried forward indefinitely.

In addition, the Group has recognised a deferred tax asset of **£28m** (2012: £104m) in respect of other deferred tax reliefs of **£499m** (2012: £449m). No deferred tax has been recognised in respect of **£361m** (2012: £nil) of these reliefs due to the unpredictability of future profits streams.

The Group has temporary differences in respect of the retained earnings of overseas subsidiaries and associates of **£903m** (2012: £893m) on which overseas taxes, including withholding taxes, might be incurred on the remittance of these earnings to the UK. The Group is able to control the remittance of earnings to the UK and there is no intention to remit any such earnings in the foreseeable future if the remittance would trigger a material incremental tax liability. As such the Group has not recognised any deferred tax in respect of the potential taxes on the temporary differences arising on unremitted earnings of overseas subsidiaries and associates.

Net deferred tax assets of **£233m** (2012: £241m), that relate to tax jurisdictions in which the Group has suffered a loss in either the current or preceding period, have been recognised on the basis that future taxable profits will be available against which these can be utilised. The evidence for the future taxable profits is a forecast consistent with the three year operational plans prepared by the relevant businesses, which are subject to internal review and challenge. Where relevant, the forecast includes extrapolations of the operation plans using assumptions consistent with those used in the plans.

25. PROVISIONS

	2013 £m	2012 £m
Pensions and post retirement obligations	269	329
Reorganisation provisions	3	6
Other provisions	94	152
Total provisions at 31 December	366	487

Of the above, **£304m** (2012: £396m) is due to be settled outside of 12 months.

Other provisions includes **£18m** (2012: £28m) relating to vacant property leases, dilapidations and refurbishments, the costs relating to which will be borne across the period over which the leases expire, which is up to 20 years, and Motor Insurance Bureau provisions of **£15m** (2012: £18m).

See note 27 for further information regarding the pensions and post retirement benefit obligations.

Movements during the year on reorganisation and other provisions

	Reorganisation provisions £m	Other provisions £m
Provisions at 1 January 2013	6	152
Credited	20	42
Utilised	(20)	(73)
Released	(3)	(27)
Provisions at 31 December 2013	3	94

26. OTHER LIABILITIES

	2013 £m	2012 £m
Deposits received from reinsurers	41	33
Derivatives designated as accounting hedges	1	6
Other derivatives	28	36
Other creditors	585	615
Accruals and deferred income	502	513
Total other liabilities	1,157	1,203
To be settled within 12 months	1,062	922
To be settled after 12 months	95	281

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

27. RETIREMENT BENEFIT OBLIGATIONS

The Group operates defined contribution pension schemes, funded and unfunded defined benefit pension schemes, and has other post retirement obligations.

Defined contribution pension schemes

Costs of **£68m** (2012: £68m) were recognised in respect of defined contribution schemes by the Group. The Group's Swedish subsidiaries are part of a multi-employer defined benefit scheme along with other financial institutions in Sweden. As it is not possible to determine the assets and liabilities in respect of any one employer under this scheme, it is included in these accounts as a defined contribution scheme. Contributions of **£11m** (2012: £11m) were paid to this scheme during 2013 and are included in the costs shown above. The expected contributions in 2014 are £11m. Total contributions to the scheme from all employers in 2013 were estimated at £80m. The latest information regarding the funding of this scheme is taken from the interim report for the first half of 2013, when the scheme funding rate was **114%** (2012: 106%).

Defined benefit pension schemes and other post retirement benefits

The major defined benefit pension schemes are located in the UK. The assets of these schemes are mainly held in separate trustee administered funds.

The UK defined benefit schemes were effectively closed to new entrants in 2002.

The profile of the members of the three main UK schemes at 30 September 2013 (the latest date at which full information is available) is as follows:

	Number
Active members – members in employment with the Group and accruing benefits	2,844
Deferred members – members no longer accruing and not yet receiving benefits	26,844
Pensioners – members and dependants receiving benefits	17,055
Total members at 30 September 2013	46,743

Active members of the schemes accrue additional benefits in each year based on salaries (subject to a salary cap) in that year. Employees are entitled to join the stakeholder pension scheme for earnings above the cap.

Accrued benefits are revalued up to retirement in accordance with government indices for inflation. A cap of 2.5% per annum applies to the revaluation of accrued benefits. A cap of 5% per annum applies for benefits which accrued prior to March 2010.

After retirement, pensions in payment are increased each year based on the increases in the government indices for inflation. A cap of 5% applies to benefits (in excess of Guaranteed Minimum Pensions) which accrued prior to 31 December 2005, and a cap of 2.5% applies to benefits accruing after that date.

The UK schemes are managed through trusts with independent trustees responsible for the safeguard of the interests of all members. The trustees meet regularly with Group management to discuss the funding position and any proposed changes to the schemes. The schemes are regulated by The Pension Regulator. Each scheme is subject to triennial valuations, which are used to determine the future funding of the schemes by the Group including funding to repair any funding deficit. The effective date of the most recent valuations of the three main UK funds is 31 March 2012.

The Group is exposed to risks through its obligation to fund the schemes. These risks include market risk (assets not performing as well as expected), inflation risk and longevity risk over the lives of the members. The Group and the trustees of the schemes work together to reduce these risks through agreement of investment policy including the use of interest rate, inflation rate and longevity swaps.

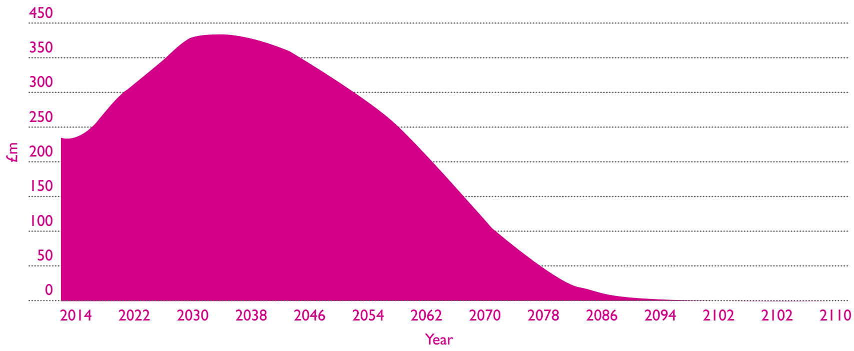
During 2009 the Group entered into arrangements that provide coverage against longevity risk for 55% of the retirement obligations relating to pensions in payment of the two largest UK schemes at that time. The arrangement provides for reimbursement of the covered pension obligations in return for the contractual return receivable on portfolios of assets (including some interest rate swaps) held by the pension funds at the inception of the arrangement. The arrangement is accounted for as a longevity swap. The pension schemes continue to hold the original assets used to fund the arrangements.

For the accounting periods ended 31 December 2012 and earlier, part of the arrangement had been measured in accordance with its legal form as an insurance contract. The premiums payable under the insurance contract were measured at fair value and the amounts receivable under the insurance contract were valued on the same basis as the insured retirement obligations.

Following the adoption of IFRS 13 all the cashflows of the arrangement are measured at fair value. The impact of valuing the net cashflows of the arrangement at fair value is to increase the value of the Group's pension schemes' assets by £160m. This increase is recognised in remeasurements of the net defined benefit liability (asset) in other comprehensive income. The valuation at 31 December 2012 has not been restated in accordance with the transitional requirements of IFRS 13.

The maturity profile of the undiscounted cashflows of the three main UK schemes is shown below:

MATURITY PROFILE (UNDISCOUNTED CASHFLOWS)



The weighted average duration of the defined benefit obligation of the three main UK schemes at the end of the reporting period is 17 years.

For the three main UK defined benefit schemes, the level of contributions in 2013 were **£92m** (2012: £97m) of which **£65m** (2012: £72m) were additional contributions in line with the plan to reduce funding deficits. Expected contributions to the three schemes for the year ending 31 December 2014 are approximately £83m including £64m of additional contributions to reduce the deficit.

The 2002 Scheme (which was the scheme to which new UK employees had been admitted following the closure of the main defined benefit schemes) has been closed to further accrual from 1 January 2006. It has been replaced by a stakeholder arrangement and members of the 2002 Scheme and future new employees in the UK now accrue future benefits on a defined contribution basis under the stakeholder pension scheme.

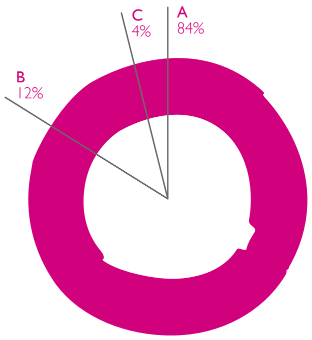
The Group also operates defined benefits schemes in other countries. The most significant of these schemes are in Canada and Ireland.

The Group also provides post retirement healthcare benefits to certain current and retired Canadian employees. The benefits are not prefunded. Life insurance benefits, which provide varying levels of coverage, are provided at no cost to retirees. Healthcare benefits, which also provide varying levels of coverage, require retiree contributions in certain instances and benefits are generally payable for life.

The split of post retirement liabilities across other countries is shown below:

NON UK LIABILITY SPLIT BY COUNTRY

A Canada
B Ireland
C Other



NOTES TO THE FINANCIAL STATEMENTS CONTINUED

The estimated discounted present values of the accumulated obligations are calculated in accordance with the advice of independent, qualified actuaries.

Movement in (deficit)/surplus during the year:

	2013 £m	Restated 2012 £m
Deficit at 1 January	(274)	(189)
Current service costs	(32)	(27)
Past service costs	(5)	–
Pension net interest cost	(8)	(6)
Administration costs	(7)	(8)
Gains on settlements/curtailments	–	6
Total pension expense	(52)	(35)
Contributions by the Group	122	128
Return on scheme assets less amounts included in pension net interest cost	257	270
Effect of changes in financial assumptions	(190)	(421)
Effect of changes in demographic assumptions	(34)	–
Experience gains and losses	1	(25)
Investment expenses	(4)	(2)
Remeasurements of net defined benefit liability	30	(178)
Exchange adjustment	8	2
Disposal/(acquisition) of subsidiary	1	(2)
Pension and post retirement deficit	(165)	(274)
Deferred tax in respect of net pension and post retirement deficit	40	67
Net pension and post retirement deficit at 31 December	**(125)**	(207)

The value of scheme assets and the scheme obligations are as follows:

	2013			2012
	UK £m	Other £m	Total £m	Total £m
Present value of funded obligations	6,251	359	6,610	6,356
Present value of unfunded obligations	8	113	121	136
Present value of obligations	6,259	472	6,731	6,492
Equities	1,065	135	1,200	1,182
Government debt	3,089	136	3,225	2,990
Non government debt	1,837	103	1,940	1,900
Derivatives	265	–	265	279
Securities with quoted market price in an active market	6,256	374	6,630	6,351
Property	142	–	142	122
Cash	60	6	66	145
Other (including infrastructure, commodities, hedge funds, loans)	518	–	518	514
Other investments	720	6	726	781
Value of asset and longevity swaps	(790)	–	(790)	(914)
Total assets in the schemes	6,186	380	6,566	6,218
Total deficit	(73)	(92)	(165)	(274)
Defined benefit pension schemes	(73)	(38)	(111)	(215)
Other post retirement benefits	–	(54)	(54)	(59)
Schemes in surplus (note 16)	82	22	104	55
Schemes in deficit (note 25)	(155)	(114)	(269)	(329)

The UK pension schemes do not hold any of the Group's own transferable financial instruments as plan assets, and no property held by the schemes is occupied by the Group.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

The following is a reconciliation of the Group's retirement benefit obligations:

	2013 £m	Restated 2012 £m
Retirement benefit obligation at 1 January	6,492	6,002
Current service costs	32	27
Past service costs and losses arising from settlements	5	–
Interest cost	274	290
Contributions by scheme participants	2	2
Actuarial losses	223	446
Gains on curtailments	–	(12)
Payments from the schemes	(263)	(258)
(Disposal)/acquisition of subsidiary	(1)	6
Exchange rate adjustment	(33)	(11)
Retirement benefit obligations at 31 December	**6,731**	6,492

The following is a reconciliation of the Group's pension schemes' assets:

	2013 £m	Restated 2012 £m
Pension schemes' assets at 1 January	6,218	5,813
Return on schemes' assets included in pension net interest cost	266	284
Return on scheme assets less amounts included in pension net interest cost	257	270
Contributions by the Group	122	128
Contributions by schemes' participants	2	2
Total expenses paid from the scheme	(11)	(10)
Payments from the schemes	(263)	(258)
Settlements	–	(6)
Acquisition of subsidiary	–	4
Exchange rate adjustment	(25)	(9)
Pension schemes' assets at 31 December	**6,566**	6,218

Assumptions

The principal actuarial assumptions used are:

	UK		Other	
	2013 %	2012 %	2013 %	2012 %
Assumptions used in calculation of retirement benefit obligations:				
Discount rate	**4.6**	4.3	**4.8**	4.2
Annual rate of inflation (RPI)	**3.3**	2.6	**–**	–
Annual rate of inflation (CPI)	**2.5**	1.8	**1.9**	2.2
Annual rate of increase in salaries	**3.3**	2.6	**3.7**	4.0
Annual rate of increase in pensions[1]	**3.2**	2.6	**1.9**	2.2
Assumptions used in calculation of pension net interest costs for the year:				
Discount rate	**4.3**	4.9	**4.2**	5.1

Notes:
1. For the UK the annual rate of increase in pensions shown is the rate that applies to pensions that increase at RPI subject to a cap of 5%. For other schemes the weighted average assumption is shown.

Mortality rate

The mortality assumptions are set following investigations of the main schemes' recent experience by the schemes' actuaries for the funding valuations. At the funding valuation in March 2012, the mortality assumptions adopted for the main UK schemes used the SAPS Light Normal base table with percentage adjustments to reflect the schemes' recent experience compared with that expected under these tables.

Reductions in future mortality rates are allowed for by using the Continuous Mortality Investigation (CMI) 2013 tables with a long-term rate of 1.00%. The weighted average assumptions imply that a current pensioner aged 60 has an expected future lifetime of **27.6** (2012: 27.6) years for males and **28.8** (2012: 28.2) years for females and a future pensioner aged 60 in 15 years time has a future expected lifetime from age 60 of **28.6** (2012: 28.3) years for males and **30.0** (2012: 28.7) years for females.

Sensitivity analysis

Sensitivities for the defined benefit obligations of the three main UK schemes are shown below (net of tax):

	Changes in assumption	2013 £m	2012 £m
Discount rate	Increase by 0.25%	**(200)**	(153)
RPI/CPI[1]	Increase by 0.25%	**145**	110
Mortality long-term rate[2]	Increase by 0.25%	**53**	–
Life expectancy	Increase by 1 year	**157**	97

Notes:
1. The impact shown is for the appropriate increase in the revaluation of deferred pensions and the increases to pensions in payment resulting from the specified increase in RPI and CPI.
2. During the year the Group moved to the use of CMI projections for future improvements to mortality with a long-term rate of 1.0%.

Impact of adoption of the revised IAS 19 in the 2013 financial statements

The Group has adopted the revised version of IAS 19 'Employee Benefits' at 1 January 2013. The changes in the revised IAS 19 are described in the significant accounting policies.

The revised IAS 19 is applied retrospectively and consequently the results for 2012 have been restated. The effect of the restatement is to increase the charge previously recognised in the consolidated income statement by £31m (£24m net of taxes). This charge includes an £8m increase in the gross claims incurred, a £9m increase in underwriting and policy acquisition costs, an £8m increase in other operating expenses and a new charge of £6m for pension net interest included within finance costs in the consolidated income statement. There is a corresponding reduction in the actuarial losses recognised in other comprehensive income. The deferred tax of £7m generated on the charges is also a direct switch between the consolidated income statement and consolidated statement of comprehensive income. There is no impact on the net asset value of the Group.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

28. SHARE BASED COMPENSATION

The Group has four types of share based payment plans which are settled in the form of ordinary shares: the Long Term Incentive Plan (LTIP), the Sharesave Plan (SAYE), the Sharebuild Plan and the Executive Share Option Scheme (ESOS). Dilution levels for all schemes are held strictly within Association of British Insurers limits. Further information on the LTIP scheme is included below and information on the other share schemes can be found in the remuneration report.

The total employment cost recorded in the consolidated income statement for all plans in 2013 is **£9m** (2012: £6m).

Analysis of share scheme costs:

	2013 £m	2012 £m
LTIP	4	1
SAYE	3	3
Sharebuild	2	2
Total	9	6

The value of the awards granted during 2013 is **£16m** (2012: £14m) of which **£3m** (2012: £2m) is charged in the consolidated income statement. The balance of the value of the awards will be charged to the consolidated income statement during the remaining vesting periods.

Analysis of new award costs:

	2013		2012	
	Charge for year £m	Total value £m	Charge for year £m	Total value £m
LTIP	3	13	2	10
SAYE	–	1	–	2
Sharebuild	–	2	–	2
Total	3	16	2	14

Long Term Incentive Plan

The Long Term Incentive Plan (LTIP) for Executive Directors and other selected executives was adopted following approval obtained at the 2006 AGM. Awards have been made each year since 2006 following shareholder approval.

The structure of the plan allows for a number of different types of awards to be made.

Voluntarily Invested Deferred Shares are purchased by participants from net bonus payable (limited to a maximum value of 33% of net bonus). Voluntarily Invested Deferred Shares are held in trust for three years.

In addition, for senior executives, the Remuneration Committee may defer a portion of an individual's gross bonus (limited to 33% of that bonus) into an award over shares referred to for the purpose of the plan as Compulsory Deferred Shares. Compulsory Deferred Share awards are normally forfeited on an employee leaving the Group. No further performance conditions apply.

The Remuneration Committee may make a conditional award of shares on a 'matched' basis to Voluntarily Invested and Compulsory Deferred Shares ('Matching Shares') up to a maximum of 2:1 and these are normally forfeited on an employee leaving the Group.

Additionally, the Remuneration Committee may make conditional awards of Performance Shares to senior executives and conditional awards of Restricted Shares to other executives and senior managers.

Awards of Performance Shares and Matching Shares related to Compulsory Deferred Shares are subject to a performance condition consisting of a combination of a return on equity target and a total shareholder return target (with performance measured by comparison against other European insurance companies) over a single three year performance period. Matching Shares related to Voluntarily Invested Deferred Shares are subject only to the return on equity performance condition. Restricted Shares are not subject to performance conditions. All awards vest on the third anniversary of the date of grant to the extent that the performance conditions have been met. Performance Shares and Restricted Shares are normally forfeited on an employee leaving the Group.

Further information on the LTIP (including details of a proposed new Long Term Incentive Plan) can be found in the Remuneration Report within the Corporate Governance section. Further disclosures in respect of the ESOS, SAYE and Sharebuild schemes have not been made on the grounds that the schemes are immaterial to the Group.

29. HEDGE ACCOUNTING

The Group designates certain forward foreign exchange contracts and foreign exchange options as accounting hedges against the net investment in designated subsidiaries to reduce the foreign exchange risk exposure.

For forward foreign exchange contracts, on designation, the interest element is separated from the forward exchange rate and is excluded from the hedge relationship. Effectiveness of the hedge is then measured using the spot rate, which is also the exchange rate used when measuring the net investment in the designated subsidiaries.

For foreign exchange options the hedge designation is to hedge the value of the foreign operations at the strike price at the exercise date of the option.

The fair value of the accounting hedges at 31 December 2013 are a liability of **£1m** (2012: £6m) and an asset of **£31m** (2012: £14m). The hedge ineffectiveness recognised in the consolidated income statement during 2013 is **£nil** (2012: £nil).

Further information on derivatives, including those designated as accounting hedges, can be found in the Risk Management section.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

30. SUBSIDIARIES

Country of incorporation		Principal activity
United Kingdom	Royal Insurance Holdings plc	Holding company
	Royal & Sun Alliance Insurance plc	General insurance
	British Aviation Insurance Company Limited (57.1%)	General insurance
	The Globe Insurance Company Limited	Holding company
	The Marine Insurance Company Limited	General insurance
	Royal International Insurance Holdings Limited	Holding company
	Royal & Sun Alliance Reinsurance Limited	General insurance
	Sun Insurance Office Limited	General insurance
Argentina	Royal & Sun Alliance Seguros (Argentina) SA	General insurance
	El Comercio Compañía de Seguros SA (96.7%)	General insurance
	Aseguradora de Créditos y Garantías SA (99.9%)	General insurance
Bahrain	Royal & Sun Alliance Insurance (Middle East) BSC (c) (50.0%)	General insurance
Brazil	Royal & Sun Alliance Seguros (Brasil) SA (99.9%)	General insurance
Canada	Roins Financial Services Limited	Holding company
	Quebec Assurance Company	General insurance
	The Johnson Corporation	Holding company
	Royal & Sun Alliance Insurance Company of Canada	General insurance
	Western Assurance Company	General insurance
	Canadian Northern Shield Insurance Company	General insurance
	L'Union Canadienne Compagnie D'Assurances	General insurance
Chile	RSA Seguros Chile SA (99.5%)	General insurance
China	Sun Alliance Insurance (China) Limited	General insurance
Colombia	Royal & Sun Alliance Seguros (Colombia) SA (86.7%)	General insurance
Denmark	Codan A/S	Holding company
	Codan Forsikring A/S	General insurance
Guernsey	Insurance Corporation of the Channel Islands Limited	General insurance
Isle of Man	Tower Insurance Company Limited	General insurance
Mexico	Royal & Sun Alliance Seguros (Mexico) SA de C.V.	General insurance
Netherlands	RSA Overseas (Netherlands) BV	Holding company
	RSA Overseas Holdings BV	Holding company
	Intouch Insurance Group BV	Holding company
Poland	Link4 Towarzystwo Ubezpieczeń SA	General insurance
Republic of Ireland	RSA Insurance Ireland Limited	General insurance
Sweden	Trygg-Hansa Försäkrings AB (publ)	General insurance
Uruguay	Royal & Sun Alliance Seguros (Uruguay) SA	General insurance

Notes:
1. This note only lists principal subsidiaries in the Group to avoid providing particulars of excessive length. None of the subsidiaries omitted from this note materially affects the results or assets of the Group.
2. A full list of Group subsidiaries is attached to the Company's latest Annual Return, available from Companies House.
3. Except where indicated all of the subsidiaries listed are wholly owned within the Group. In all cases the proportion of voting power held equals the proportion of ownership interest.

31. BUSINESS COMBINATIONS

During 2013 no significant acquisitions or disposals were completed by the Group. 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.

32. CASHFLOWS FROM OPERATIONS

	2013 £m	Restated 2012 £m
Net (loss)/profit for the year before tax	(244)	448
Adjustments for:		
Depreciation	34	35
Amortisation and impairment of intangible assets	481	128
Fair value losses (including losses on disposal) on property and equipment	2	1
Fair value gains (including gains on disposal) on financial assets	(29)	(70)
Fair value (gains)/losses (including (gains)/losses on disposal) on investment property	(13)	24
Impairment charge on available for sale financial assets	8	19
Share of loss from associates	2	6
Foreign exchange	(4)	(27)
Amortisation of available for sale investments	57	44
Other non cash movements	39	(77)
Changes in operating assets/liabilities:		
Movement in insurance contract liabilities:		
Unearned premiums	28	138
Losses and loss adjustment expenses	340	8
Movement in working capital	(84)	(112)
Reclassification of investment income and interest paid	(376)	(400)
Cash generated from operations	241	165

33. RELATED PARTY TRANSACTIONS

The ultimate Parent Company of the Group is RSA Insurance Group plc which is incorporated in England and Wales.

The following transactions were carried out with related parties:

Key management compensation

	2013 £m	2012 £m
Salaries and other short-term employee benefits	7	6
Bonus awards	1	3
Pension benefits	1	1
Share based awards	–	(1)
Total	9	9

Key management personnel comprise members of the Group Executive Committee (including Executive Directors) and Non-Executive Directors.

Included in salaries and other short-term employee benefits is **£3,116,000** (2012: £4,207,000) paid in respect of directors. These amounts exclude the value of share options granted to directors and gains made on the exercise of such options, Group contributions paid in respect of pension schemes and cash or other assets received or receivable under long-term incentive schemes. The total value of the directors' remuneration (including values for these excluded items) and other details are disclosed in the Remuneration Report.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

A number of the directors, other key managers, their close families and entities under their control have general insurance policies with subsidiary companies of the Group. Such policies are available at discounted rates to all employees including Executive Directors.

As at 31 December 2013, there are interest free loan totalling **£5,000** (2012: £5,000) outstanding to members of the key management team under standard terms of the Group's UK Car Ownership Scheme, which is open to all UK managers within a qualifying salary band.

34. COMMITMENTS

Capital commitments

The Group's significant capital commitments in respect of property and equipment and intangible assets are detailed in the table below:

	2013 £m	2012 £m
Property and equipment	9	4
Intangible assets	39	52
Total	48	56

Operating lease commitments

The Group leases various outlets and offices under non cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

Operating lease commitments where the Group is the lessee

The future aggregate minimum lease payments under non cancellable operating leases are as follows:

	Land and buildings		Other	
	2013 £m	2012 £m	2013 £m	2012 £m
One year or less	58	59	3	2
Between one and five years	166	161	4	3
After five years	134	107	–	–
	358	327	7	5
Recoveries under sub tenancies	(11)	(14)	–	–
Total	347	313	7	5

Operating lease commitments where the Group is the lessor

The future aggregate minimum lease payments under non cancellable operating leases are as follows:

	Land and buildings	
	2013 £m	2012 £m
One year or less	22	26
Between one and five years	74	83
After five years	81	83
Total	177	192

35. ASSETS HELD FOR SALE

Assets held for sale comprises the Group's Swedish headquarters. The property was designated as held for sale following a decision to make the disposal and the sale is considered highly probable.

36. EVENTS AFTER THE REPORTING PERIOD

After the year end the Group incurred claims due to flooding in the UK and Ireland and ice storms in Canada of between £75m and £100m.

Subsequent to the year end a number of actions were taken to strengthen the Group's capital position:

- On 26 February 2014 the directors agreed to seek to raise £775m by way of a rights issue. The rights issue has been underwritten on a standby basis by a syndicate of banks
- The Group sold £460m of equities representing most of the equities in the Group's investment portfolio
- The Group purchased an adverse development cover contract (ADC). The ADC is underwritten by Berkshire Hathaway and covers the insurance liabilities in existence at 31 December 2012. It provides £550m of cover with an attachment point which is £550m above our undiscounted actuarial indication (excluding loss adjustment expenses). The Group retains 20% of the exposure. This cover protects shareholders from adverse reserve development and provides capital benefits
- In January 2014, the Group entered into a sale and leaseback agreement for the Group's Swedish headquarters which was designated as held for sale at the year end. The Group is expected to realise a profit of £30m on the transaction which is expected to complete on 31 March 2014.

PARENT COMPANY STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2013

	2013 £m	2012 £m
Profit/(loss) for the year net of tax	**271**	(81)
Items that may be reclassified to the income statement:		
Fair value (losses)/gains on available for sale financial assets	**(1,371)**	1,413
Total comprehensive (expense)/income for the year	**(1,100)**	1,332

The profit for the year net of tax includes a tax charge of **£1m** (2012: tax credit of £10m). There is no tax relating to fair value (losses)/gains.

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2013

	Ordinary share capital £m	Ordinary share premium £m	Preference shares £m	Revaluation reserves £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2012 as previously reported	971	1,144	125	862	8	931	4,041
Reserve transfer (note 12)	–	(420)	–	–	–	420	–
Balance at 1 January 2012 restated	971	724	125	862	8	1,351	4,041
Fair value gains net of tax	–	–	–	1,413	–	–	1,413
Loss for the year net of tax	–	–	–	–	–	(81)	(81)
Total comprehensive income/(expense) for the year	–	–	–	1,413	–	(81)	1,332
Dividends (note 7)	–	–	–	–	–	(336)	(336)
Shares issued by scrip	12	(12)	–	–	–	50	50
Shares issued for cash (note 4)	3	5	–	–	–	–	8
Share based payments	3	–	–	–	–	2	5
Balance at 1 January 2013	**989**	**717**	**125**	**2,275**	**8**	**986**	**5,100**
Fair value losses net of tax	**–**	**–**	**–**	**(1,371)**	**–**	**–**	**(1,371)**
Profit for the year net of tax	**–**	**–**	**–**	**–**	**–**	**271**	**271**
Total comprehensive (expense)/income for the year	**–**	**–**	**–**	**(1,371)**	**–**	**271**	**(1,100)**
Dividends (note 7)	**–**	**–**	**–**	**–**	**–**	**(232)**	**(232)**
Shares issued by scrip	**18**	**(18)**	**–**	**–**	**–**	**75**	**75**
Shares issued for cash (note 4)	**2**	**5**	**–**	**–**	**–**	**–**	**7**
Share based payments	**3**	**–**	**–**	**–**	**–**	**5**	**8**
Balance at 31 December 2013	**1,012**	**704**	**125**	**904**	**8**	**1,105**	**3,858**

The movement in equity for the year net of tax includes a net tax charge of **£1m** (2012: £1m).

The attached notes form an integral part of these separate financial statements.

PARENT COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2013

	Notes	2013 £m	Restated (note 12) 2012 £m
Assets			
Fixtures and fittings		1	4
Intangible assets		2	3
Investments	2	5,109	6,479
Amounts owed by subsidiaries	9	1,575	1,381
Current tax assets	6	8	8
Deferred tax assets	6	11	22
Other debtors and other assets	3	10	8
		1,604	1,419
Cash and cash equivalents		3	3
Total assets		6,719	7,908
Equity and liabilities			
Equity			
Share capital	4	1,137	1,114
Reserves	12	1,616	3,000
Retained earnings	12	1,105	986
Total equity and reserves		3,858	5,100
Liabilities			
Amounts owed to subsidiaries	9	1,474	1,406
Loan capital	5	1,309	1,311
Current tax liabilities	6	2	2
Accruals and other liabilities		76	89
Total liabilities		2,861	2,808
Total equity, reserves and liabilities		6,719	7,908

The attached notes form an integral part of these separate financial statements.

The separate financial statements were approved on 26 February 2014 by the Board of Directors and are signed on its behalf by:

Richard Houghton
Group Chief Financial Officer

PARENT COMPANY STATEMENT OF CASHFLOWS

FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	2013 £m	2012 £m
Net cashflows from operating activities	8	**268**	(94)
Purchase of intangible assets		–	(2)
Net movement in amounts owed by subsidiaries		**(118)**	369
Net cashflows from investing activities		**(118)**	367
Proceeds from issue of share capital		**7**	8
Dividends paid		**(157)**	(286)
Net cashflows from financing activities		**(150)**	(278)
Net decrease in cash and cash equivalents		–	(5)
Cash and cash equivalents at the beginning of the year		**3**	8
Cash and cash equivalents at end of the year		**3**	3

The attached notes form an integral part of these separate financial statements.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

RSA Insurance Group plc, incorporated in England and Wales, is the ultimate Parent Company ('the Company') of the RSA group of companies. The principal activity of the Company is to hold investments in its subsidiaries and the receipt and payment of dividends.

These separate financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

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

In accordance with section 408 of the Companies Act 2006, the Company's income statement and related notes have not been presented in these separate financial statements.

The accounting policies that are used in preparation of these separate financial statements are consistent with the accounting policies used in preparation of the consolidated financial statements of RSA Insurance Group plc as set out in those financial statements.

The additional accounting policies that are specific to the separate financial statements of the Company are set out below.

Investment in subsidiaries

The Company accounts for its investments in directly owned subsidiaries as available for sale financial assets, which are included in the accounts at fair value.

Changes in the fair value of the investments in subsidiaries are recognised in the statement of comprehensive income. Where there is a decline in the fair value of a directly owned subsidiary below cost, and there is objective evidence that the investment is impaired, the cumulative loss that has been recognised in equity is removed from equity and recognised in the income statement.

Dividend income

Dividend income from investments in subsidiaries is recognised when the right to receive payment is established.

2. INVESTMENTS

	2013 £m	2012 £m
Investments at 1 January – at valuation	6,479	5,066
Fair value adjustments	(1,370)	1,413
Investments at 31 December – at valuation	5,109	6,479

The balance at 31 December comprises:

	2013 £m	2012 £m
Investment in subsidiaries	4,146	5,475
Loans to subsidiaries	963	1,004
Investments at 31 December – at valuation	5,109	6,479

The investments in subsidiaries are recognised in the statement of financial position at fair value measured in accordance with the Company's accounting policies. The Company's investments are classified as level 2 financial assets. Fair value of the Company's significant subsidiary is determined by reference to the market value (derived from relevant indices) of the Company's ordinary shares and loan capital instruments at the end of the reporting period, being the most transparent independent available indicator. The market value is adjusted for the fair value of the Company's preference shares, assets and liabilities, excluding directly owned subsidiaries. The adjusting items have been fair valued by determining the present value of future cashflow projections, using an appropriate arm's length discount rate. The remaining subsidiaries are held at fair value which has been determined to be net asset value.

The directors believe that the methodology used supports the inclusion of the investments in subsidiaries in the statement of financial position, at the fair values ascribed to them. The market value of the Company's ordinary shares at 31 December 2013 was 91.4p. A movement of 1% in the share price would have an impact of £34m on the fair value.

Full details of the principal subsidiaries of the Company are set out in note 30 to the consolidated financial statements.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS CONTINUED

3. OTHER DEBTORS AND OTHER ASSETS – TO BE SETTLED WITHIN 12 MONTHS

	2013 £m	2012 £m
Other prepayments and accrued income	1	1
Other debtors	9	7
Total other debtors and other assets	**10**	**8**

4. SHARE CAPITAL

Full details of the share capital of the Company are set out in note 19 to the consolidated financial statements.

5. LOAN CAPITAL

Full details of the loan capital of the Company are set out in note 20 to the consolidated financial statements.

6. CURRENT AND DEFERRED TAX

	Asset		Liability	
	2013 £m	2012 £m	2013 £m	2012 £m
To be settled within 12 months	8	8	–	–
To be settled after 12 months	–	–	2	2
Total	**8**	**8**	**2**	**2**

The aggregate current tax relating to items that are credited to equity is **£2m** (2012: £2m).

Deferred tax assets

Deferred tax for the current year is based on a rate of **20.0%** (2012: 23.0%). The following are the major deferred tax assets recognised by the Company and movements during the year:

	2013 £m	2012 £m
Other temporary differences	4	12
Reclassification of bonds	3	6
Accelerated capital allowances	4	4
Net deferred tax position at 31 December	**11**	**22**

The movement in the net deferred tax assets recognised by the Company was as follows:

	2013 £m	2012 £m
Net deferred tax position at 1 January	22	22
Amounts (charged)/credited to income statement	(6)	3
Amounts charged to equity	(2)	(1)
Effect of change in tax rates – income statement	(2)	(1)
Effect of change in tax rates – equity	(1)	(1)
Net deferred tax position at 31 December	**11**	**22**

The Company has recognised a deferred tax asset of **£2m** (2012: £10m) in other temporary differences in respect of deferred tax reliefs of **£52m** (2012: £45m). No deferred tax has been recognised in respect of **£43m** (2012: £nil) of deferred tax reliefs due to the unpredictability of future profits streams.

Net deferred tax assets of **£11m** (2012: £22m), that relate to tax jurisdictions in which the Company has suffered a loss in either the current or preceding period, have been recognised on the basis that future taxable profits will be available against which these can be utilised. The evidence for the future taxable profits is a forecast consistent with the three year operational plans prepared by the relevant businesses, which are subject to internal review and challenge. Where relevant, the forecast includes extrapolations of the operational plans using assumptions consistent with those used in the plans.

7. DIVIDENDS

Full details of the dividends paid and proposed by the Company are set out in note 7 to the consolidated financial statements.

8. CASH GENERATED FROM OPERATIONS

	2013 £m	2012 £m
Net profit/(loss) for the year before tax	268	(91)
Changes in operating assets/liabilities	–	(3)
Net cashflows from operating activities	268	(94)

9. RELATED PARTY TRANSACTIONS

RSA Insurance Group plc (incorporated in England and Wales) is the ultimate Parent Company of the RSA group of companies.

The following transactions were carried out with related parties:

Provision of services and benefits

RSA Insurance Group plc provides services and benefits to its subsidiary companies operating within the UK and overseas as follows:

- Provision of technical support in relation to risk management, information technology and reinsurance services. Services are charged for annually on a cost plus basis, allowing for a margin of **5%** (2012: 5%).
- Issue of share options and share awards to employees of subsidiaries. Costs are charged for annually, based on the underlying value of the awards granted calculated in accordance with the guidance set out within IFRS 2.

	2013 £m	2012 £m
Salaries and other short-term employee benefits	7	6
Bonus awards	1	3
Pension benefits	1	1
Share based awards	–	(1)
Total	9	9

There are no employees with employment contracts with the Company. All employees are employed by subsidiary companies.

A number of the directors, other key managers, their close families and entities under their control have general insurance policies with subsidiary companies of the Group. Such policies are on normal commercial terms except that executive directors and key managers are entitled to special rates which are also available to other members of staff.

As at 31 December 2013, there are interest free loans totalling **£5,000** (2012: £5,000) outstanding to members of the key management team under the standard terms of the Group's UK Car Ownership Scheme, which is open to all UK managers within a qualifying salary band.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS CONTINUED

Other transactions

Year end balances with related parties are set out below:

	2013 £m	2012 £m
Receivable from related parties:		
Receivable from subsidiaries, interest bearing loans	728	567
Receivable from subsidiaries, non interest bearing loans	847	814
Total receivable from related parties	1,575	1,381
Payable to related parties:		
Payable to subsidiaries, interest bearing loans	1,016	976
Payable to subsidiaries, non interest bearing loans	458	430
Total payable to related parties	1,474	1,406

Interest is charged on interest bearing loans, which are repayable on 24 hours written notice. This is comprised of **£745m** (2012: £706m) at three months LIBOR plus 0.6% and **£271m** (2012: £270m) at three months LIBOR plus 2.0%.

Loans to subsidiaries of **£963m** (2012: £1,004m) as disclosed within note 2 have been made. Of this, **£304m** (2012: £319m), **£80m** (2012: £81m) and **£579m** (2012: £604m) are subordinated loans on which interest is charged at 8.5%, 6.701% and 9.375% respectively.

Royal & Sun Alliance Insurance plc (RSAI), a subsidiary of the Company, has provided guarantees to the Company's creditors for amounts arising from its loan capital agreements (as set out in note 20 to the consolidated financial statements) and for amounts arising from its committed credit facilities (as set out in note 23 to the consolidated financial statements). The guarantees relating to the loan capital agreements are subordinated to all other creditors of RSAI.

10. SHARE BASED COMPENSATION

Full details of share based compensation plans are provided in note 28 to the consolidated financial statements.

11. RISK MANAGEMENT

The risks faced by the Company are derived from its investment in subsidiaries and are therefore the same as those of the RSA group of companies. Details of the key risks to the Group and the steps taken to manage them are disclosed in the risk management section of the consolidated financial statements.

12. RESERVE TRANSFER

A transfer between share premium and retained profit has been made as a result of retrospectively treating scrip dividends as bonus issues of shares in order to bring the Company into line with current market practice for such transactions.

SHAREHOLDER INFORMATION

REGISTERED OFFICE AND GROUP CORPORATE CENTRE

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

GROUP WEBSITE

The Company's corporate website provides shareholders with a broad range of information about the Company's heritage, social and environmental responsibilities and investor information such as the Group's financial statements, current and historic share prices, Annual General Meeting (AGM) materials, events, governance information and answers to frequently asked questions in respect of shareholder matters. Visit the investor website at www.rsagroup.com/investorrelations for further information.

REGISTRAR

The Company's share register is maintained by Equiniti Limited. Any administrative enquiries relating to shareholdings, such as dividend payment instructions or a change of address, should be notified to Equiniti at the following address:

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

When contacting Equiniti, please quote your shareholder reference number which can be found on your share certificate or dividend tax voucher. Calls cost 8p per minute plus network extras. Telephone lines are open from 8.30am to 5.30pm Monday to Friday. Overseas callers should use +44(0) 121 415 7064. Shareholders with a text phone facility should use +44(0) 871 384 2255 or alternatively use the Text Relay service by dialling 18001 0121 415 7064 directly from the text phone. To securely email Equiniti with an enquiry visit http://help.shareview.co.uk.

ANNUAL GENERAL MEETING

Holders of the Company's ordinary shares are invited to attend the Company's AGM, which will be held at 200 Aldersgate, St Paul's, London EC1A 4HD at 11.00am on Friday 9 May 2014.

MANAGING YOUR SHAREHOLDING

Information on how to manage your shareholding can be found at http://help.shareview.co.uk. If you do not find the information you require, you can send your enquiry via secure email from these pages. You will be asked to complete a form providing your name, address and shareholder reference number. If you require an email response, you will need to provide your email address.

AMALGAMATION OF ACCOUNTS

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

ELECTRONIC COMMUNICATIONS

Receiving the Company's communications electronically allows the Company to communicate with its shareholders in a more environmentally friendly, cost effective and timely manner.

You can elect to receive email notifications of shareholder communications by registering at www.shareview.co.uk where you can also set up a bank mandate to receive dividends directly to your bank account and submit proxy votes for shareholder meetings. Shareholders may elect to receive a printed copy of the Annual Report and Accounts at any time by contacting Equiniti.

Additionally, if you wish to register for the Company's investor news service to receive the latest news and press releases by email, visit www.rsagroup.com/investornewsalert.

DIVIDENDS

Shareholders are encouraged to have their dividends paid directly into their bank account. It is a more secure and faster way to receive the dividend payment with cleared funds available to shareholders on the dividend payment date. Shareholders who have their dividends paid directly into their bank receive a consolidated tax voucher once a year, showing payments received in the respective tax year. Alternatively, individual tax vouchers are available upon request. To take advantage of this convenient method of payment visit www.shareview.co.uk or contact Equiniti. Details of 2014 dividend dates can be found in the Financial Calendar on page 175.

SHAREHOLDER INFORMATION CONTINUED

SCRIP DIVIDEND SCHEME

The Company has the authority to offer a Scrip Dividend Scheme to shareholders giving them the opportunity to use their final and interim dividend payments to increase their holding in the Company without incurring dealing costs or stamp duty. The Scrip Dividend Scheme requires shareholder approval and the authority currently in place is due to expire on 17 May 2014. The Company is proposing to renew the authority for the Scrip Dividend Scheme at this year's AGM. For dividends where a scrip alternative is offered, shareholders wishing to receive a scrip dividend instead of a cash dividend should contact Equiniti for details or visit the shareholder services area of the Company's website.

AMERICAN DEPOSITARY RECEIPTS

The Company operates a sponsored American Depositary Receipts ('ADR') programme which is managed by JPMorgan Chase NA. The programme allows shareholders to invest in the Company through US dollar denominated funds. Any enquiry relating to the sponsored ADR programme should be addressed to:

JPMorgan Chase & Co
PO Box 64504
St Paul
MN 55164-0504 USA

or alternatively visit adr.com/shareholder and select Contact Us.

LOW COST SHARE DEALING FACILITIES

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

Equiniti offer a telephone and internet dealing service. Commission is currently 1.5% with a minimum charge of £50 for telephone dealing and currently 1.5% with a minimum charge of £45 for internet dealing. For telephone sales call +44(0) 845 6037 037 between 8.30am and 4.30pm, Monday to Friday. For internet sales log on to www.shareview.co.uk/dealing. Please quote your shareholder reference number.

Stocktrade also offer a telephone dealing service. Commission is currently 0.5% on amounts up to £10,000 and 0.2% on the excess thereafter, all of which are subject to a minimum charge of £17.50. For telephone sales call +44(0) 131 240 0414 between 8.00am and 4.30pm, Monday to Friday. Please quote reference: 'RSA Group dial and deal service'. Alternatively visit their website, www.stocktrade.co.uk.

Please note that rates quoted are as at February 2014 and may be subject to change. Please contact either provider for further guidance on their full terms and conditions.

SHARE REGISTER FRAUD: PROTECTING YOUR INVESTMENT

UK law requires that our shareholder register is available for public inspection. We are unable to control the use of information obtained by persons inspecting the register. Details of any share dealing facilities that the Company endorses will be included in Company mailings or on our website.

Shareholders are advised to be wary of any unsolicited advice, offers to buy shares at a discount, or offers of free reports about the Company. If you receive any unsolicited advice, make sure you get the correct name of the person and organisation and check that they are appropriately authorised by the FCA by visiting www.fca.org.uk. More information on protecting your investment can be found at http://www.fca.org.uk/consumers/scams/investment-scams/protect-yourself. If you do receive a fraudulent approach, please advise the FCA using the share fraud reporting form at www.fca.org.uk/scams or call the FCA Consumer Helpline on 0800 111 6768.

TIPS ON PROTECTING YOUR SHARES

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

SHAREGIFT

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

FINANCIAL CALENDAR

WEDNESDAY 5 MARCH 2014
Ex dividend date for the first preference dividend for 2014.

FRIDAY 7 MARCH 2014
Record date for the first preference dividend for 2014.

TUESDAY 1 APRIL 2014
Payment date for the first preference dividend for 2014.

THURSDAY 8 MAY 2014
Q1 2014 interim management statement.

FRIDAY 9 MAY 2014
Annual General Meeting.

THURSDAY 7 AUGUST 2014*
Announcement of the half year results for the six months ended 30 June 2014, the ordinary interim dividend for 2014 and the second preference dividend for 2014.

WEDNESDAY 13 AUGUST 2014*
Ex dividend date for the second preference dividend for 2014.

FRIDAY 15 AUGUST 2014*
Record date for the second preference dividend for 2014.

WEDNESDAY 24 SEPTEMBER 2014*
Ex dividend date for the ordinary interim dividend for 2014.

FRIDAY 26 SEPTEMBER 2014*
Record date for the ordinary interim dividend for 2014.

WEDNESDAY 1 OCTOBER 2014*
Payment date for the second preference dividend for 2014.

THURSDAY 6 NOVEMBER 2014*
Q3 2014 interim management statement.

FRIDAY 21 NOVEMBER 2014*
Payment of the ordinary interim dividend for 2014.

* PROVISIONAL DATES

JARGON BUSTER

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

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

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

NOTES

Important disclaimer
This document contains 'forward-looking statements' with respect to certain of the Group's plans and its current goals and expectations relating to its future financial condition, performance, results, strategic initiatives and objectives. Generally, words such as 'may', 'could', 'will', 'expect', 'intend', 'estimate', 'anticipate', 'aim', 'outlook', 'believe', 'plan', 'seek', 'continue', 'potential' or similar expressions, identify forward-looking statements.

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, Eurozone and global economic business conditions, market-related risks such as fluctuations in interest rates and exchange rates, the policies and actions of governments, central banks and regulatory authorities (including changes related to capital and solvency requirements whether in the UK, Eurozone or globally), 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.

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 and, as a result, these forward-looking statements are not guarantees of future performance of the Group and undue reliance should not be placed on them. The Group undertakes no obligation to update any forward-looking statements, save in respect of any requirement under applicable law or regulation. Neither the content of RSA's website nor the content of any other website accessible from hyperlinks on RSA's website is incorporated into, or forms part of, this document.

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Photograph of Tony O'Connell by Dave Chan

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