2013 PRELIMINARY RESULTS

27 February 2014

RSA ANNOUNCES 2013 PRELIMINARY RESULTS, NEW STRATEGIC ACTION PLAN AND PROPOSED RIGHTS ISSUE

Disappointing 2013 headline results with pre-tax loss of £244m but normalised[2] pre-tax profit of £427m

- Net written premiums up 3% on constant exchange rate basis to £8.7bn
- Weather charge of 3.5% of premiums; significantly higher than five year average
- Irish underwriting loss of £220m from management irregularities, reserve strengthening and Q4 adverse weather
- Group underwriting profit of £57m (2012[1]: £358m); normalised[2] underwriting result of £309m
- Investment income of £493m (2012: £515m)
- Goodwill and software intangibles write downs of £331m
- IGD surplus at 31/12/13 of £0.2bn, ECA surplus of £0.7bn; Adjusting for impact of proposed rights issue, IGD surplus at 27/02/14 expected to be c.£1.3bn with coverage of 1.8 times

Strategic action plan including £775m rights issue

- UK & Ireland, Canada, Scandinavia and Latin America to form core of the Group going forward
- Extensive business improvement plans in train focused on portfolio actions and expense efficiency
- Certain disposal processes have already commenced targeting c.£300m proceeds in 2014
- Capital actions to reduce equity and property exposure and execute new reinsurance structures complete
- Independent review of reserves complete. Conclusion that reserves are in a reasonable range
- Our own assessment of margin in reserves at 31/12/13 is 5.0%
- Proposed rights issue to be launched with the aim of raising £775m
- Impact of 2013 results means final dividend cannot be justified

Stephen Hester, Group Chief Executive of RSA, commented:

"We believe that RSA can be a strongly performing company within our industry. Today we are announcing determined action plans designed to achieve that goal. Our core businesses, our 19m customers and our dedicated staff provide key assets to base this work upon.

"RSA's 2013 results are poor and we need to grasp the nettles of both underperformance and undercapitalisation. As part of this we intend to launch a rights issue to help ensure we have the appropriate level of capital behind the Group. Together with a series of significant 'self-help' measures, we believe this will put the Group's capital in the right place for the future. It will give us the necessary platform to focus aggressively on tightening strategy, improving customer service in core businesses and delivering operational improvements; and from these actions deliver attractive returns on a stronger tangible equity base.

"Serve customers well. Operate with capital strength. Focus on driving shareholder value. This is our agenda."

FINANCIAL HIGHLIGHTS	**12 Months 2013 Reported**	**12 Months 2013 Normalised[2]**	12 Months 2012 (restated[1])
Net written premiums	**£8,664m**	**£8,664m**	£8,353m
Underwriting result	**£57m**	**£309m**	£358m
Combined operating ratio	**99.6%**	**96.8%**	95.6%
Operating result	**£286m**	**£601m**	£667m
(Loss)/Profit before tax	**£(244)m**	**£427m**	£448m
(Loss)/Profit after tax	**£(338)m**	**£304m**	£327m
Basic earnings per share	**(9.8)p**	**7.9p**	8.8p
Total dividend per share	**2.28p**		7.31p
Return on equity	**(9.8)%**	**7.9%**	8.5%
Net asset value per share	**75p**		101p
Tangible net asset value per share	**45p**		60p

MANAGEMENT REPORT - KEY FINANCIAL PERFORMANCE DATA

Net written premiums	2013 £m Personal	Commercial	Global Specialty Lines	2013 £m Reported Total	2013 £m Normalised[2] Total	2012 £m (restated[1]) Total
Scandinavia	1,028	630	205	**1,863**		1,791
Canada	1,193	307	255	**1,755**		1,614
Emerging Markets	632	562	209	**1,403**		1,237
UK & Western Europe	1,646	1,192	751	**3,589**		3,689
Group Re	-	54	-	**54**		22
Total net written premiums	**4,499**	**2,745**	**1,420**	**8,664**	**8,664**	8,353

Underwriting performance	Combined operating ratio (%) 2013	Combined operating ratio (%) 2012 (restated[1])	2013 Reported £m	2013 Normalised[2] £m	2012 (restated[1]) £m
Scandinavia	**88.1**	86.6	**225**		237
Canada	**99.3**	93.6	**10**		101
Emerging Markets	**96.9**	96.9	**46**		33
UK & Western Europe	**106.6**	100.0	**(226)**		(8)
Group Re	**-**	-	**2**		(5)
Total underwriting performance	**99.6**	**95.6**	**57**	**309**	358
Investment result					
Investment income			**493**	**493**	515
Unwind of discount			**(160)**	**(97)**	(84)
Total investment result			**333**	**396**	431
Insurance result			**390**	**705**	789
Other activities			**(104)**	**(104)**	(122)
Operating result			**286**	**601**	667
(Loss)/Profit before tax			**(244)**	**427**	448
(Loss)/Profit after tax			**(338)**	**304**	327
Earnings per share – basic (pence)			**(9.8)**	**7.9**	8.8
Earnings per share – diluted (pence)			**(9.8)**	**7.8**	8.7
Total dividend per share (pence)			**2.28**		7.31
Net asset value per share – incl IAS19 pension deficit (pence)			**75**		101
Net asset value per share – excl IAS19 pension deficit (pence)			**77**		107
Tangible Net asset value per share – incl IAS19 pension deficit (pence)			**45**		60
Tangible Net asset value per share – excl IAS19 pension deficit (pence)			**47**		65
Return on equity (%)			**(9.8)**	**7.9**	8.5
Return on tangible equity (%)			**(16.7)**	**13.4**	13.4
IGD Surplus (£bn)			**0.2**		1.2
IGD Coverage ratio (times)			**1.1**		1.9
ECA Surplus (1 in 1,250 year calibration) (£bn)			**0.7**		0.7

Notes:
[1] 2012 figures throughout this document, where impacted, have been restated for changes to IAS 19 'Employee Benefits'.
[2] 2013 normalised reflects adjustments for above trend weather losses, financial impact of issues in Ireland, discount rate changes in the UK and reorganisation costs.

CHIEF EXECUTIVE'S STATEMENT

This is my first chance to communicate publicly with shareholders since joining RSA three weeks ago. Our announcements today are clearly important. 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 a sense of how we see the way forward.

May I say firstly that I am greatly encouraged by and appreciative of the welcome extended by Board and the wider RSA team. 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.

Background

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 in relation to the confidence and trust of the 19m 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, and 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 2008/9, the capital bar is being set higher, not just in banking but for insurance too. 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.

Today's Results Announcement

- 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, we report a combined operating ratio of 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 hit hard, but are recognised and action has been taken. Weather issues also hit results hard across various territories. 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 and our UK businesses face tough competitive markets. 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 2006-11 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 and increase the reserve margin on our book of UK / Western Europe business to bring both to a more appropriate level. The Towers Watson review of our overall reserves has confirmed that they fall within a range of reasonable best estimates.

We present an inadequate **capital position** for 2013 and a strong and decisive path to improve it.

- 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 to correct the capital weakness. 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 have 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 underwritten on a standby basis by our banks today, at £775m represents c.20% of our market value as at last night. 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 rights issue (which is fully underwritten), will increase IGD surplus to an estimated £1.3bn (1.8 times the requirement) and ECA surplus to an estimated £1.4bn (1.6 times the requirement) on 27 February 2014. Ongoing action, including disposals, will improve these further.

We present a **new strategic focus**.

- Our base plan is that 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 & 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 properly 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.

- 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.

RSA's Action Plan

The key ingredients of our Plan are therefore:

1. Tighten the strategic focus of the Group so we can concentrate more effectively 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 Group's ability to sustain it. This means underwriting, portfolio, expense and distribution actions. It means technology actions and people actions too.

The announcements today 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. Especially 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 outline today.

RSA in the Future

Our strong and shared ambition is to see RSA as a resilient and valuable company, performing at its best, and reliably so. We are a leading, international general 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 to shareholders 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
26 February 2014

MANAGEMENT REPORT – 2013 SUMMARY

INCOME STATEMENT

12 months ended 31 December 2013

	Scandinavia £m	Canada £m	Emerging Markets £m	UK & Western Europe £m	Central Functions £m	**Group 2013 £m**	Group 2013 (normalised) £m	Group 2012 (restated) £m
Net written premiums	**1,863**	**1,755**	**1,403**	**3,589**	**54**	**8,664**	8,664	8,353
Underwriting result	**225**	**10**	**46**	**(226)**	**2**	**57**	309	358
Investment income	119	70	53	242	9	**493**	493	515
Unwind of discount	(40)	(3)	(11)	(97)	(9)	**(160)**	(97)	(84)
Investment result	**79**	**67**	**42**	**145**	**-**	**333**	396	431
Insurance result	**304**	**77**	**88**	**(81)**	**2**	**390**	705	789
Other activities	(11)	(6)	(28)	(1)	(58)	**(104)**	(104)	(122)
Operating result (management basis)	**293**	**71**	**60**	**(82)**	**(56)**	**286**	601	667
Realised gains/(losses)						**60**	60	79
Unrealised (losses)/gains, investment impairment and foreign exchange						**(28)**	(28)	(51)
Interest costs						**(117)**	(117)	(115)
Amortisation of intangible assets						**(42)**	(42)	(42)
Pension net interest costs						**(15)**	(15)	(14)
Solvency II costs						**(20)**	(20)	(32)
Reorganisation costs and impairment of intangible assets						**(356)**	-	(24)
Acquisitions and disposals						**(12)**	(12)	(20)
(Loss)/Profit before tax (per condensed consolidated income statement)						**(244)**	427	448
(Loss)/Profit after tax (per condensed consolidated income statement)						**(338)**	304	327
Combined operating ratio (%)	88.1	99.3	96.9	106.6	-	**99.6**	96.8	95.6

2013 was a very 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. 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.

Premiums

In 2013, net written premiums were up 4% at reported exchange rates (3% at constant exchange) to £8,664m (2012: £8,353m as reported; £8,406m at constant exchange). Premium growth comprised 3% from rate increases on renewed business, partly offset by a (2)% reduction in volumes. Inorganic activity contributed 2% with a further 1% increase from foreign exchange effects. On a constant exchange rate basis, premiums grew by 16% in Emerging Markets and 11% in Canada, with Scandinavian premiums flat. Premiums were down 4% in UK and Western Europe.

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). Adjusting for the impact of above trend weather and the irregularities and reserve strengthening in Ireland, normalised underwriting profits were £309m. 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. In Canada the underwriting profit of £10m reflects record levels of adverse weather, 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 & 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, offset by disappointing underwriting losses in Liability and Personal Motor, in part driven by action to increase the margin in reserves in these lines. 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 Group combined operating ratio (COR) was 99.6% (2012: 95.6%) and on a normalised basis was 96.8%. Total weather losses for the Group accounted for 3.5 points of the COR (2012: 2.2 points). Large losses contributed 7.1 points to the COR (2012: 7.0 points), which is broadly in line with long term averages, although large losses in 2013 were concentrated in Scandinavia and Western Europe. Prior year releases benefited the combined ratio by 1.0 point (2012: 2.7 points) with the lower level primarily reflecting the need to increase reserves in Ireland. Excluding this impact, normalised prior year releases were 2.0 points of the combined ratio.

Investment result

The investment result was £333m and comprised investment income of £493m, offset by the liability 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. Average yield across the whole portfolio fell from 3.6% to 3.5%. The unwind of discount of £160m was £76m adverse to prior year (2012: £84m) which substantially reflects the impact of a reduction in the discount rate used for certain long tail lines in the UK from 5% to 4%.

Other activities and non-operating items

Other activities cost £104m (2012: £122m) and comprise £58m central expenses (2012: £59m), £31m of investment expenses (2012: £33m) and £15m of other operating activities (2012: £30m). Other operating activities include the investment in our associates in India and Thailand as well as start-up costs for our direct operations in Central and Eastern Europe. In 2013 the start-up charge for our Central and Eastern Europe operations reduced from £19m in 2012 to £12m.

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

MOVEMENT IN NET ASSETS

	Shareholders' funds £m	Non controlling interests £m	Loan capital £m	Equity plus loan capital £m	TNAV £m
Balance at 1 January 2013	**3,750**	**129**	**1,311**	**5,190**	**2,136**
(Loss)/profit after tax	(347)	9	-	**(338)**	**135**
Exchange losses net of tax	(126)	(4)	-	**(130)**	**(74)**
Fair value losses net of tax	(257)	-	-	**(257)**	**(257)**
Pension fund gains net of tax	17	-	-	**17**	**17**
Amortisation of loan capital	-	-	(2)	**(2)**	**-**
Share issue	82	-	-	**82**	**82**
Changes in shareholders' interests in subsidiaries	(3)	1	-	**(2)**	**(3)**
Share based payments	9	-	-	**9**	**9**
Prior year final dividend	(140)	(14)	-	**(154)**	**(140)**
Current year interim dividend	(83)	-	-	**(83)**	**(83)**
Preference dividend	(9)	-	-	**(9)**	**(9)**
Goodwill and intangible additions	-	-	-	-	**(148)**
Balance at 31 December 2013	**2,893**	**121**	**1,309**	**4,323**	**1,665**
Per share (pence)	**75**				**45**

CAPITAL POSITION

	31 December 2013 Requirement £bn	**31 December 2013 Surplus £bn**	**Coverage (times)**	31 December 2012 Surplus £bn
Insurance Groups Directive	**1.5**	**0.2**	**1.1**	1.2
Economic Capital (1 in 1,250 calibration)	**2.5**	**0.7**	**1.3**	0.7

Preliminary reconciliation of IFRS capital to IGD and ECA capital

	IGD £m	ECA £m
Total IFRS shareholders' funds plus loan capital	4,202	4,202
Adjust for:		
Non-controlling interests	-	121
Goodwill and intangibles	(1,103)	(1,103)
Deferred tax	(269)	(220)
Discounting	(465)	-
Claims equalisation reserve	(319)	-
IAS 19 pension deficit	-	125
Hybrid debt restriction	(253)	-
Other	(103)	59
Total available capital	**1,690**	**3,184**

NET ASSETS

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 which included significant non-cash charges to impair certain goodwill and intangible assets, dividends paid, foreign exchange losses, and adverse mark-to-market movements on our bond portfolio. Net asset value per share was 75p (31 December 2012: 101p). Excluding the IAS 19 pension deficit it was 77p (31 December 2012: 107p).

Tangible net asset value was £1,665m at 31 December 2013 (31 December 2012: £2,136m) giving a per share value of 45p (31 December 2012: 60p per share) primarily reflecting the movements in net asset value described above, adjusted for intangible movements. Excluding the IAS19 pension deficit tangible net asset value per share was 47p (31 December 2012: 65p per share).

CAPITAL

The Group's capital position has been significantly impacted by events in 2013.

At 31 December 2013, the IGD surplus was £0.2bn (31 December 2012: £1.2bn) covering the capital requirement 1.1 times (31 December 2012: 1.9 times). The reduction in the IGD surplus mainly reflects the impact of the losses associated with the issues we faced in Ireland and adverse weather across the Group; the dividend declarations made during 2013; rising bond yields generating adverse mark-to-market movements; together with a hybrid debt restriction on the amount of loan capital that can be counted as capital resources. The reduction in IGD surplus in the final quarter of the year from £0.8bn to £0.2bn is driven by the issues in Ireland, adverse weather and hybrid debt restriction.

The economic capital surplus was £0.7bn (31 December 2012: £0.7bn) (on a 1 in 1,250 year calibration) giving coverage over the economic capital requirement of 1.3 times.

Since the end of 2013 we have taken certain actions which have boosted our capital positions. On 27 February 2014, including an allowance for the proceeds of the proposed rights issue (which are fully underwritten) we expect our IGD surplus to be £1.3bn with coverage of 1.8 times and we expect our ECA surplus to be £1.4bn with coverage of 1.6 times.

Total debt was £1,309m at 31 December 2013 (31 December 2012: £1,311m). The Group has the option to call £450m of subordinated guaranteed perpetual notes in December 2014 and its committed £500m senior facility continues to remain undrawn.

The Group's current Standard & Poor's rating is A- (developing Creditwatch outlook). The Group is rated A2 by Moody's.

RESERVES

Reserve Margin and Prior Year Reserves

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.

	2003 and prior	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Prior year reserve movement	**(1)**	**14**	**26**	**26**	**-**	**27**	**(23)**	**(30)**	**22**	**-**	**61**

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 some of the £128m reserve strengthening in Ireland. Excluding the strengthening in Ireland, we have had positive development in 2013 from every year from 2004.

Complete loss development triangles for 2013 are included later in this report.

Adverse Development Cover

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 (we define the Actuarial Indication as the best estimate of reserve requirement). RSA retains 20% of the exposure. This cover protects shareholders from adverse reserve development and provides capital benefits.

Independent Reserve Review

In January 2014, RSA retained Towers Watson, a leading worldwide independent actuarial consulting firm, to review its internal Actuarial Indication net of reinsurance outstanding claims reserves for specified segments of its global business, excluding that of its Ireland subsidiary as at 30 September 2013, except for the Canadian business which was reviewed as at 31 December 2013. The review covered all long tail lines of business. The review dates reflect the underlying Actuarial Indication analysis used by RSA to determine its booked reserves in conjunction with a roll-forward, which was outside the scope of Towers Watson's review. The review relied, without independent verification, on data and on information supplied by RSA. Towers Watson reviewed the data and information for reasonableness and internal consistency. RSA's Actuarial Indication net of reinsurance falls within a range of reserves that is regarded as reasonable by Towers Watson as a best estimate. Residual differences in opinion in respect of actuarial indication are comfortably covered by RSA's estimate of the margin in reserves. Further important details on the review are included later in this document.

PENSIONS

The table below provides a reconciliation of the movement in the Group's pension fund position (net of tax) from 1 January 2013 to 31 December 2013.

	UK £m	Other £m	Group £m
Pension fund at 1 January 2013	**(111)**	**(96)**	**(207)**
Re-measurement of net defined benefit pension liability	3	14	**17**
Deficit funding	52	-	**52**
Other movements	(2)	15	**13**
Pension fund at 31 December 2013	**(58)**	**(67)**	**(125)**

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 re-measurement of assets following the introduction of IFRS 13.

Within actuarial assumptions, the pension inflation rate increased from 2.6% at the end of 2012 to 3.2% at the 31 December 2013 while the discount rate increased by a smaller amount from 4.3% to 4.6% over the same period. Consequently the yield gap has decreased from 1.7% to 1.4%.

The overseas pension deficit has improved by £29m over the year to a deficit of £67m principally due to an increase in the discount rate applied to the Canadian pension scheme from 4.3% to 5.0%. This reflects increases in the AA corporate bond yields in Canada.

CONCLUSION OF PENSION SCHEME VALUATIONS

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 c93% funded on the prudent measure that the Trustees are required to use, with a combined deficit of £477m. This compares to a combined deficit of £725m 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.

GROUP OUTLOOK FOR 2014

Future premium growth will be affected by the disposals and other portfolio actions we have announced today. In 2014, we expect premiums to reduce by up to 10% as a result of these actions. It seems likely that underlying premium growth over the next few years will range between 0% and 5% per annum for the Group dependent on market trends.

We are increasing our assumptions on weather losses to 3.0% of net earned premiums per annum (2012: 2.2% of NEP) which is marginally above the 5 year average (2009-13). Given the difficult weather in the UK, Ireland and Canada in the first two months of 2014, weather losses in 2014 may exceed our planning assumption, though it is clearly too early to know. These increases will impact the Group combined ratio, however, we would hope to continue to perform at least in line with local market norms. Regional outlooks for combined ratios are included in the regional commentaries pages.

Low bond yields will continue to affect investment income, as will the impact of equity disposals in Q1 2014. We expect investment income to be around £430m in 2014.

We believe that the actions we have taken to reduce intangible assets and increase prudence in reserves will also have positive effects on future profitability. The normalised discount unwind will modestly reduce going forward and amortisation charges for UK software (currently included in the UK underwriting result) will also reduce. As our reorganisation plans develop, there are likely to be further reorganisation charges in 2014 and 2015.

BUSINESS REVIEW – INVESTMENT RESULT

Investment Result	12 Months 2013 £m	12 Months 2012 £m	Change %
Bonds	**381**	403	(5)
Equities	**47**	57	(18)
Cash and cash equivalents	**26**	15	73
Property	**28**	28	-
Other	**11**	12	(8)
Investment income	**493**	515	(4)
Unwind of discount including ADC	**(160)**	(84)	(90)
Investment result	**333**	431	(23)
Attributed to			
Scandinavia	**79**	94	(16)
Canada	**67**	61	10
Emerging Markets	**42**	45	(7)
UK & Western Europe	**145**	233	(38)
Central functions	**-**	(2)	-
Realised and Unrealised Gains			
Realised gains	**60**	79	(24)
Unrealised (losses)/gains, impairments and foreign exchange	**(28)**	(51)	45
Total gains	**32**	28	14

Balance sheet unrealised gains	31 Dec 2013	31 Dec 2012	Change %
Bonds	**299**	638	(53)
Equities	**86**	86	-
Other	**7**	6	17
Total	**392**	730	(46)

Portfolio Composition	Value 31 Dec 2012 £m	Foreign Exchange £m	Mark to Market £m	Other Movements £m	Value 31 Dec 2013 £m
Government bonds	4,207	(92)	(150)	203	**4,168**
Non government bonds	7,517	(133)	(254)	(47)	**7,083**
Cash	1,329	(56)	-	(111)	**1,162**
Equities	553	(16)	69	(24)	**582**
Property	340	(1)	9	(17)	**331**
Preference shares & CIVs[1]	286	(15)	(12)	21	**280**
Other	97	(5)	(7)	61	**146**
Total	14,329	(318)	(345)	86	**13,752**
Split by currency:					
Sterling	3,855				**3,493**
Danish Krone	1,353				**1,302**
Swedish Krona	2,680				**2,287**
Canadian Dollar	3,110				**2,947**
Euro	1,500				**1,763**
Other	1,831				**1,960**
Total	14,329				**13,752**

[1] Collective investment vehicles

INVESTMENT RESULT – INCOME SLIGHTLY AHEAD OF EXPECTATIONS

Investment income of £493m was slightly ahead of expectations but down 4% on prior year (2012: £515m), reflecting the continued low bond yield environment. After accounting for the unwind of discount, the investment result was £333m (2012: £431m). The unwind of discount of £160m was £76m adverse to prior year (2012: £84m) and reflects the reduction in the discount rate used for certain long tail lines in the UK from 5% to 4%.

The average yield on the total portfolio was 3.5% (2012: 3.6%), with average yield on the bond portfolios of 3.3% (2012: 3.5%). Reinvestment rates in the Group's bond portfolios at 31 December 2013 were approximately 120bps lower than the existing portfolio yield.

Total gains of £32m (2012: £28m) reflected 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.

Balance sheet unrealised gains of £392m (31 December 2012: £730m) primarily relate to unrealised gains on the bond portfolio. The 46% decline mainly reflects a 53% reduction in unrealised bond gains following the increase in yields during 2013.

At 31 December 2013, the portfolio was invested in widely diversified fixed income securities (82% of the portfolio), with 4% in equities, 8% in cash and 2% in property. The portfolio decreased in value over the year due to negative mark-to-market movements and foreign exchange losses.

2013 average duration remains at 3.8 years (31 December 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.

The quality of the bond portfolio remains very high with 98% investment grade and 69% rated AA or above. We are well diversified by sector and geography. Peripheral European sovereign debt amounts to less than 1% of the total 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.

Since the end of 2013, in response to the outcome of the business review, we have sold c.£460m of equities to improve our capital position. Approximately £60m of gains were realised from these sales. We have also agreed the sale and leaseback of our Swedish group owned property which will realise around £30m of gains. The proceeds have been reinvested into bonds or held as cash.

Investment Income: Outlook

Investment income will continue to be impacted by reinvestment of matured bonds at prevailing low interest rates. The sale of equities post year end and foreign exchange movements will also reduce income with the result that total investment income is anticipated to be around £430m in 2014.

Credit quality – bond portfolio	**31/12/2013**	31/12/2012
	%	%
AAA	**48**	51
AA	**21**	18
A	**21**	22
BBB	**8**	7
< BBB	**1**	1
Non rated	**1**	1
Total	**100**	100

REGIONAL REVIEW – SCANDINAVIA

	Net written premiums		Change[1]	Underwriting result	
	2013	2012	**%**	**2013**	2012
	£m	£m		**£m**	£m
Split by country					
Sweden	**1,032**	961	**2**	**153**	157
Denmark	**656**	671	**(6)**	**63**	75
Norway	**175**	159	**10**	**9**	5
Total Scandinavia	**1,863**	1,791	**-**	**225**	237
Split by class					
Personal					
Household	**320**	298	**3**	**10**	(10)
Motor	**398**	391	**(2)**	**108**	124
Personal Accident and Other	**310**	284	**4**	**118**	80
Total Scandinavia Personal	**1,028**	973	**1**	**236**	194
Commercial					
Property	**310**	306	**(3)**	**(28)**	(5)
Liability	**134**	126	**2**	**22**	44
Motor	**224**	218	**(1)**	**(13)**	(4)
Marine and Other	**167**	168	**(5)**	**8**	8
Total Scandinavia Commercial	**835**	818	**(2)**	**(11)**	43
Total Scandinavia	**1,863**	1,791	**-**	**225**	237
Investment result				**79**	94
Scandinavia insurance result				**304**	331

Operating Ratios (%)	Claims		Expenses		Combined	
	2013	2012	**2013**	2012	**2013**	2012
Personal						
Household					**96.8**	103.6
Motor					**73.4**	68.3
Personal Accident and Other					**60.7**	71.4
Total Scandinavia Personal	**61.0**	64.2	**15.9**	15.9	**76.9**	80.1
Commercial						
Property					**108.3**	102.0
Liability					**83.1**	64.3
Motor					**106.3**	102.1
Marine and Other					**96.8**	94.1
Total Scandinavia Commercial	**78.5**	71.9	**23.1**	22.7	**101.6**	94.6
Total Scandinavia	**69.0**	67.7	**19.1**	18.9	**88.1**	86.6

Rate Increases[2] (%)	Personal		Commercial		
	Household	**Motor**	**Property**	**Liability**	**Motor**
Dec 13 vs Dec 12	5	1	4	4	7
Sept 13 vs Sept 12	6	2	4	5	5
Jun 13 vs Jun 12	8	3	3	4	4
Mar 13 vs Mar 12	9	3	3	4	4

[1] At constant exchange rate

[2] Rating increases reflect rate movements achieved for risks renewing in the month versus comparable risks renewing in the same month the previous year

SCANDINAVIA – CONTINUED STRONG PROFITABILITY; COR OF 88.1%

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 26%, 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 continued 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).

Scandinavia – 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.

RSA

REGIONAL REVIEW – CANADA

	Net written premiums		Change[1]	Underwriting result	
	2013	2012	**%**	**2013**	2012 (restated[2])
	£m	£m		**£m**	£m
Personal					
Household	**464**	396	**19**	**(15)**	26
Motor	**729**	694	**7**	**53**	18
Total Canada Personal	**1,193**	1,090	**11**	**38**	44
Commercial					
Property	**252**	233	**11**	**(59)**	-
Liability	**143**	139	**5**	**4**	39
Motor	**108**	95	**15**	**15**	12
Marine and other	**59**	57	**5**	**12**	6
Total Canada Commercial	**562**	524	**9**	**(28)**	57
Total Canada	**1,755**	1,614	**11**	**10**	101
Investment result				**67**	61
Canada insurance result				**77**	162

Operating Ratios (%)	Claims		Expenses		Combined	
	2013	2012 (restated[2])	**2013**	2012 (restated[2])	**2013**	2012 (restated[2])
Personal						
Household					**102.9**	92.5
Motor					**92.8**	97.7
Total Canada Personal	**72.5**	72.0	**24.3**	24.0	**96.8**	96.0
Commercial						
Property					**123.3**	99.0
Liability					**97.1**	71.2
Motor					**85.2**	87.1
Marine and other					**79.7**	88.4
Total Canada Commercial	**70.1**	53.8	**34.7**	34.4	**104.8**	88.2
Total Canada	**71.7**	66.2	**27.6**	27.4	**99.3**	93.6

Rate Increases[3] (%)	**Personal**		**Commercial**		
	Household	**Motor**	**Property**	**Liability**	**Motor**
Dec 13 vs Dec 12	8	1	4	3	-
Sept 13 vs Sept 12	7	-	5	2	2
Jun 13 vs Jun 12	7	-	4	3	3
Mar 13 vs Mar 12	7	1	4	2	2

[1] At constant exchange rate

[2] 2012 restated for changes to IAS 19 'Employee Benefits'

[3] Rating increases reflect rate movements achieved for risks renewing in the month versus comparable risks renewing in the same month the previous year

RSA

CANADA – UNDERLYING BUSINESS STRONG DESPITE RECORD ADVERSE WEATHER EVENTS

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 7 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 restated: £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 restated: 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 restated: £162m).

Canada – 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.

REGIONAL REVIEW – EMERGING MARKETS

	Net written premiums 2013 £m	Net written premiums 2012 £m	Change[1] %	Underwriting result 2013 £m	Underwriting result 2012 £m
Latin America	**837**	766	**15**	**19**	21
CEEME	**415**	351	**14**	**20**	7
Asia	**151**	120	**24**	**7**	5
Total Emerging Markets	**1,403**	1,237	**16**	**46**	33
Asian Associates[2]	**317**	303	**7**		
Asia (incl Associates)	**468**	423	**12**		
Emerging Markets (incl Associates)	**1,720**	1,540	**14**		
Investment result				**42**	45
Emerging Markets insurance result (as reported)				**88**	78
EM start up costs (reported in other activities)				**(12)**	(19)
Emerging Markets insurance result (fully loaded for costs)				**76**	59

Operating Ratios (%)	Claims 2013	Claims 2012	Expenses 2013	Expenses 2012	Combined 2013	Combined 2012
Latin America					**97.4**	96.0
CEEME					**95.4**	97.8
Asia					**99.2**	99.0
Total Emerging Markets	**57.3**	55.8	**39.6**	41.1	**96.9**	96.9

[1] At constant exchange rate

[2] Asian Associates includes 100% of the premiums of our associates in India and Thailand

EMERGING MARKETS – CONTINUED GROWTH AND INCREASING PROFITABILITY

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 £60m 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).

Emerging Markets 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.

REGIONAL REVIEW – UK & WESTERN EUROPE

	Net written premiums 2013	Net written premiums 2012 (restated[2])	Change[1] %	Underwriting result 2013	Underwriting result 2012 (restated[2])
UK Personal	**£m**	£m		**£m**	£m
Household	**707**	670	**6**	**88**	50
Motor	**377**	416	**(9)**	**(40)**	7
Pet	**227**	233	**(3)**	**3**	5
Total UK Personal	**1,311**	1,319	**(1)**	**51**	62
UK Commercial					
Property	**467**	491	**(5)**	**82**	20
Liability	**285**	280	**2**	**(119)**	(23)
Motor	**519**	598	**(13)**	**8**	(49)
Marine	**321**	319	**1**	**14**	11
Total UK Commercial	**1,592**	1,688	**(6)**	**(15)**	(41)
Total UK	**2,903**	3,007	**(3)**	**36**	21
Western Europe					
Ireland	**327**	348	**(10)**	**(220)**	24
Italy	**221**	212	**-**	**(1)**	(50)
European Specialty Lines	**138**	122	**8**	**(41)**	(3)
Total UK & Western Europe	**3,589**	3,689	**(4)**	**(226)**	(8)
Investment result				**145**	233
UK & WE insurance result				**(81)**	225

Operating Ratios (%)	Claims 2013	Claims 2012 (restated[2])	Expenses 2013	Expenses 2012 (restated[2])	Combined 2013	Combined 2012 (restated[2])
Personal						
Household					**87.4**	92.3
Motor					**111.7**	100.8
Pet					**99.8**	98.0
Total UK Personal	**58.7**	60.4	**38.7**	35.9	**97.4**	96.3
Commercial						
Property					**83.0**	94.7
Liability					**140.0**	107.8
Motor					**99.3**	107.7
Marine					**93.2**	96.6
Total UK Commercial	**70.2**	70.6	**30.4**	30.3	**100.6**	100.9
Total UK	**65.1**	66.0	**34.1**	32.8	**99.2**	98.8
Western Europe						
Ireland					**165.8**	94.3
Italy					**100.5**	123.3
European Specialty Lines					**131.2**	101.7
Total UK & Western Europe	**73.0**	68.0	**33.6**	32.0	**106.6**	100.0

Rate Increases[3] (%) UK	Personal Household	Personal Motor	Commercial Property	Commercial Liability	Commercial Motor[4]
Dec 13 vs Dec 12	-	2	1	4	2
Sept 13 vs Sept 12	-	(2)	3	3	4
Jun 13 vs Jun 12	1	(3)	4	5	3
Mar 13 vs Mar 12	2	(4)	4	3	4

[1] At constant exchange rate
[2] 2012 restated for (i) changes to IAS 19 'Employee Benefits'; and (ii) class of business changes in UK Commercial, ESL and Italy
[3] Rating increases reflect rate movements achieved for risks renewing in the month versus comparable risks renewing in the same month the previous year
[4] Excluding Motability

UK & WESTERN EUROPE – DISAPPOINTING YEAR IN IRELAND; PROGRESS IN THE UK AND ITALY

In the UK we have made further progress on refocusing the business with good performances in Household, Commercial Property and Marine, and an improved result in Commercial Motor. However, this was partly offset by the continued challenging conditions in Personal Motor, and the strengthening of reserves in Liability which included an addition of £60m to reserve margin. We faced significant challenges during the year in our Irish business and we 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 and included strong volume from our affinity partnerships, but overall was down 3% due to the adjustment to pipeline premium we mentioned at the Interim Results in August. The underwriting result was a profit of £51m (2012 restated: £62m) and the combined ratio was 97.4% (2012 restated: 96.3%). Household underwriting profits were £88m (2012 restated: £50m) whilst Motor made a loss of £40m reflecting the impact of lower volumes impacting our expense ratio, some abnormal severity increases and some reserve strengthening.

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 restated: £41m loss) with a combined ratio of 100.6% (2012 restated: 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% as a result of the continued corrective actions as we focus on profit over volume. The Property underwriting result of £82m reflects favourable large loss experience and the benefit of the corrective actions, whilst in Motor we have seen a much improved underwriting result to a 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 some specific issues in our Legacy book. We have seen increasing frequency of deafness claims and losses in certain segments of our Professional Indemnity book mainly from prior year claims. As a result we have strengthened reserves in these two books, including an addition of £60m to margin to reflect ongoing uncertainty.

In the UK, the fourth quarter saw three significant weather events, the most significant of which was the Xaver storm. The net cost of these events to our UK & Western Europe business was £41m. Despite these events, and the disappointing results in Liability and Personal Motor, the UK business delivered an underwriting profit of £36m (2012 restated: £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. These issues in Ireland prompted an independent review by PwC as well as additional review procedures performed by our auditors KPMG and our Internal Audit function, the positive outcome of which was announced in January 2014. The implementation of the actions arising from the PwC review is progressing well. 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 restated: loss of £50m) driven by the remedial actions we have taken.

UK and Western Europe outlook

In the UK, our focus will continue to be on underwriting profit over volume. 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. In March 2014 we intend to inject a further £40m of capital into Ireland.

LOSS DEVELOPMENT TABLES

The table below presents the general insurance claims provisions net of reinsurance for the accident years 2003 and prior through to 2013. The top half of the table shows the estimate of cumulative claims at the end of the initial accident year and how these have developed over time. The bottom half of the table shows the value of claims paid for each accident year in each subsequent year. The current year provision for each accident year is calculated as the estimate of cumulative claims at the end of the current year less the cumulative claims paid.

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 included part of the £128m reserve strengthening in Ireland.

	2003 and prior	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£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	
1 year later	8,746	2,178	2,355	2,493	2,607	2,673	2,589	2,731	2,961	3,096		
2 years later	8,679	1,987	2,266	2,396	2,579	2,665	2,560	2,708	2,939			
3 years later	9,003	1,901	2,191	2,310	2,515	2,635	2,535	2,738				
4 years later	8,863	1,832	2,107	2,256	2,469	2,618	2,558					
5 years later	8,691	1,783	2,042	2,233	2,453	2,591						
6 years later	8,584	1,746	2,016	2,202	2,453							
7 years later	8,450	1,701	1,992	2,176								
8 years later	8,304	1,683	1,966									
9 years later	8,215	1,669										
10 years later	8,216											
2013 Movement	**(1)**	**14**	**26**	**26**	**-**	**27**	**(23)**	**(30)**	**22**	**-**		**61**
Claims paid												
1 year later	2,319	730	966	1,007	1,168	1,328	1,294	1,423	1,393	1,433		
2 years later	1,143	263	297	356	371	396	409	449	460			
3 years later	802	186	171	193	270	256	261	261				
4 years later	477	142	144	176	167	194	206					
5 years later	463	90	104	120	140	116						
6 years later	354	72	81	89	74							
7 years later	278	27	45	57								
8 years later	191	28	24									
9 years later	175	19										
10 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**		
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 statement of financial position												**9,488**

ASBESTOS RESERVES

The technical provisions include £830m (31 December 2012: £832m) for asbestos in the UK comprising £778m (31 December 2012: £788m) for UK risks and £52m (31 December 2012: £44m) for US risks written in the UK. Experience in 2013 in the UK has been broadly in line with expectations. The increase of £9m for US risks written in the UK reflects a number of changes including some commutations of outwards reinsurance and changes in exchange rate. As in previous years, these asbestos provisions have been reviewed by external consultants. These provisions can be analysed by survival ratio. Survival ratio is an industry standard measure of a company's reserves, expressing the number of years that carried reserves will be available if the recent year payment or notification levels continue.

	Total	UK risks written in the UK	US risks written in the UK
Provisions in £m			
Net of reinsurance	**830**	**778**	**52**
Net of discount	**497**	**456**	**41**
Survival ratios (Gross of discount) - On payment			
One year	**29**	**32**	**12**
Three year average	**31**	**33**	**16**
Survival ratios (Gross of discount) - On notifications			
One year	**23**	**25**	**11**
Three year average	**23**	**25**	**12**

One year average ratios are inherently more volatile and impacted by the size and timing of payments or notifications in the year, with the three year average providing a more stable benchmark. For UK risks written in the UK, the paid survival ratios have remained stable, with the incurred survival ratio impacted by changes in the level of notifications from year to year. We continue to monitor notification levels closely. For US risks written in the UK, the remaining reserves are relatively small in total and will therefore be particularly sensitive to changes in notifications or the size and timing of claims payments and settlements during the year.

TOWERS WATSON REVIEW

The scope of Towers Watson's work was to independently review RSA's internal Actuarial Indication estimates of the net of reinsurance unpaid claims reserves of its global business excluding that of its Ireland subsidiary as at 30 September 2013 except for the Canadian business and US Adverse Development Cover which was reviewed as at 31 December 2013.

Towers Watson concludes that RSA's internal Actuarial Indication estimates of the net of reinsurance unpaid claims reserves for the business reviewed is reasonable in that it falls within a range of estimates that is regarded as reasonable by Towers Watson as a best estimate.

Towers Watson's review of non-life reserves as at 30 September 2013 (and as at 31 December 2013 for the Canadian business and US Adverse Development Cover) covered over 90% of the in scope net reserves for non-life unpaid claims, based on the internal Actuarial Indication estimates. The review dates reflect the underlying Actuarial Indication analysis used by RSA to determine its booked reserves in conjunction with a roll-forward which was beyond the scope of Towers Watson's review.

Reserves are undiscounted for the time value of money, with the exception of those held in relation to claims involving annuity payments.

The results shown in this presentation are based on a series of assumptions as to the future. It should be recognised that actual future claim experience is likely to deviate, perhaps materially, from Towers Watson's estimates. This is because the ultimate liability for claims will be affected by future external events; for example, the likelihood of claimants bringing suit, the size of judicial awards, changes in standards of liability, and the attitudes of claimants towards the settlement of their claims.

Towers Watson has not anticipated any extraordinary changes to the legal, social, inflationary or economic environment, or to the interpretation of policy language, that might affect the cost, frequency, or future reporting of claims. In addition, Towers Watson's estimates make no provision for potential future claims arising from causes not substantially recognised in the historical data (such as new types of mass torts or latent injuries, terrorist acts), except in so far as claims of these types are included incidentally in the reported claims and are implicitly developed. For example, RSA has exposure to liabilities in Argentinian Pesos and future payments are subject to significant inflation and exchange rate change risks.

In many territories, court awards for future losses in respect of injury claims are based on a number of factors including a discount rate (such as the Ogden Tables in the UK). Towers Watson's estimates are based on current discount rates used for assessing the value of such claims and do not allow for changes in these rates, consistent with RSA's internal Actuarial Indication estimates.

Towers Watson's analysis was carried out based on data as at the valuation date of 30 September 2013 (with the exception of the Canadian business and US Adverse Development Cover which was based on data as at 31 December 2013). Towers Watson's analysis may not reflect development or information that became available after the valuation date and Towers Watson's results, opinions and conclusions presented herein may be rendered inaccurate by developments after the valuation date. For example, we have not reviewed any reserves in relation to UK floods or Scandinavian storms that occurred after the valuation date.

RSA has asbestos, environmental and other health hazard (APH) exposures plus noise induced hearing loss (deafness) exposures which are subject to greater uncertainty than typical accident or event loss exposures. Due to inherent uncertainty, the actual losses could prove to be significantly different to the estimated loss amounts for these claims.

RSA has exposure to annuity-type claims which are dependent on the longevity of the claimants, including (but not exclusively) Periodical Payment Order claims in the UK and Workers Compensation and Personal Accident claims in Scandinavia. These claims are very long-tailed in nature and are subject to additional risks beyond those normally associated with non-life liabilities, including investment risk, longevity risk and indexation risk, and, for Scandinavian business, revision risk; due to these inherent uncertainties, the actual losses could prove to be significantly different to the estimated loss amounts for these claims.

The estimates are in pounds sterling based on exchange rates provided by RSA as at 30 September 2013 (and as at 31 December 2013 for the Canadian business and US Adverse Development Cover). A substantial proportion of the liabilities is denominated in foreign currencies. To the extent that the assets backing the reserves are not held in matching currencies, future changes in exchange rates may lead to significant exchange gains or losses.

Towers Watson has assumed that all of RSA's reinsurance protection will be valid and collectible.

Towers Watson has not attempted to determine the quality of the current asset portfolio of RSA, nor has Towers Watson reviewed the adequacy of the balance sheet provisions except as otherwise disclosed herein.

The scope of Towers Watson's analysis does not include comment on capital requirements. In particular Towers Watson has not investigated the level of capital required to protect RSA from adverse claims experience.

Towers Watson's estimates are not intended to represent an opinion of market value and should not be interpreted in this manner.

In its review, Towers Watson has relied on audited and unaudited financial information and data supplied to us by RSA and its subsidiaries, including information given orally. Towers Watson relied on the accuracy and completeness of this information without independent verification. For certain classes of business where significant legislative changes or significant changes to policy terms and conditions have occurred, RSA has provided adjusted historic data as if current legislation or current policy terms and conditions were in force. Towers Watson has relied on the interpretation of the changes and quantum of adjustments made by RSA without independent verification. For Accidental Damage salvage and subrogation recoveries within the UK motor classes, Towers Watson has used the RSA internal estimates of ultimate recovery rates within its projections.

Except for any agreed responsibilities Towers Watson may have to RSA, Towers Watson does not accept nor assume any duty of care or responsibility, and does not accept any liability to any other party, whether in tort (including negligence) or otherwise for any damages or loss suffered by any such party, arising out of this commentary or references by RSA to Towers Watson's work as set out in this document or the fact that Towers Watson has carried out such work.

RATIOS, DEFINITIONS AND OTHER INFORMATION

Normalised performance

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.

Underlying return on equity

Underlying return on equity was (3.2)% (2012: 9.2%) and, normalised underlying return on equity was 7.5%. It is calculated as the profit after tax attributable to ordinary shareholders from continuing operations, excluding acquisitions, disposals, reorganisation costs and net unrealised investment gains or losses, impairments and foreign exchange expressed in relation to opening shareholders' funds attributable to ordinary shareholders.

Combined operating ratio

The combined operating ratio represents the sum of expense and commission costs expressed in relation to net written premiums and claim costs expressed in relation to net earned premiums. The calculation of the COR of 99.6% is based on net written premiums of £8,664m and net earned premiums of £8,594m.

Net asset value per share

Net asset value per share data at 31 December 2013 was based on total shareholders' funds of £2,893m, adjusted by £125m for preference shares.

Earnings per share

The earnings per share is calculated by reference to the result attributable to the ordinary shareholders of the Parent Company and the weighted average number of shares in issue during the period. These were 3,632,179,765 on both a basic and diluted basis (excluding those held in ESOP and SIP trusts). The number of shares in issue at 31 December 2013 was 3,681,798,995 (excluding those held in ESOP and SIP trusts).

Related party transactions

In 2013, there have been no related party transactions that have materially affected the financial position of the Group.

Changes to management basis reporting

The 2012 comparatives have been restated for changes to IAS 19 'Employee Benefits'.

In addition, two further changes impact the prior year comparatives. Firstly, in UK Commercial, there have been some small reclassifications between Property and Motor in order to better reflect the composition of these two classes. Secondly, Risk Solutions business written in Italy has now been reclassified from European Specialty Lines to Italy in order to report both parts of the Italian business in one place.

IAS 19 restatement

Following the issue of a revised IAS 19 'Employee Benefits' the group has made changes to its accounting for employee benefits.

Under the revised standard, expected returns on plan assets are no longer being recognised in profit or loss. Expected returns are replaced by recording interest income in the income statement, which is calculated using the discount rate used to measure the pension obligations. The effect of this is to increase the charge in the income statement, with a corresponding reduction in other comprehensive income. There is no change to the statement of financial position.

We have restated the comparative figures in the condensed consolidated income statement with a corresponding opposite entry in the condensed consolidated statement of comprehensive income. The net income statement impact of these changes on the 2012 comparatives is a £17m reduction to the underwriting result, a 0.2pt increase in the combined ratio, a £17m reduction to the operating result and an £24m reduction to profit after tax. Corresponding ratios and other metrics have also been restated.

Reporting and Dividend Timetable

5 March 2014	Ex dividend date for the first preference dividend for 2014
7 March 2014	Record date for the first preference dividend for 2014
1 April 2014	Payment date for the first preference dividend for 2014
8 May 2014	Q1 2014 Interim Management Statement
9 May 2014	2014 Annual General Meeting
7 August 2014	Announcement of 2014 interim results
6 November 2014	Q3 2014 interim management statement

Board Changes

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.

RSA Chairman, Martin Scicluna, said: "I would like to thank Edward and Malcolm for the significant contribution they have made over the last 11 and ten years respectively to the Board. They will be greatly missed but both felt that now was the right time to step down after such a long period of service. They will leave with our thanks and best wishes."

Potential Share Consolidation

The Company intends to propose a 5 to 1 consolidation of its ordinary 27.5p shares at its AGM in 2014. Details of how this will be achieved will be announced at a later date.

SUMMARY CONSOLIDATED INCOME STATEMENT

MANAGEMENT BASIS

	12 Months 2013 £m	12 Months 2012 (restated) £m
Net written premiums	**8,664**	8,353
Underwriting result	**57**	358
Investment income	**493**	515
Unwind of discount	**(160)**	(84)
Investment result	**333**	431
Insurance result	**390**	789
Other activities	**(104)**	(122)
Operating result	**286**	667
Realised gains	**60**	79
Unrealised gains/(losses), investment impairment and foreign exchange	**(28)**	(51)
Interest costs	**(117)**	(115)
Amortisation of intangible assets	**(42)**	(42)
Pension net interest costs	**(15)**	(14)
Solvency II costs	**(20)**	(32)
Reorganisation costs and impairment of intangible assets	**(356)**	(24)
Acquisitions and disposals	**(12)**	(20)
(Loss)/profit before tax	**(244)**	448
Taxation	**(94)**	(121)
(Loss)/profit after tax	**(338)**	327

Earnings per share on (loss)/profit attributable to the ordinary shareholders of the Parent Company:

Basic	**(9.8)p**	8.8p
Diluted	**(9.8)p**	8.7p

SUMMARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION

MANAGEMENT BASIS

	2013 £m	2012 £m
Assets		
Goodwill and other intangible assets	**1,103**	1,489
Property and equipment	**160**	272
Associated undertakings	**44**	40
Investments		
Investment property	**331**	340
Equity securities	**862**	839
Debt and fixed income securities	**11,251**	11,724
Other	**146**	97
Total investments - management basis	**12,590**	13,000
Reinsurers' share of insurance contract liabilities	**2,026**	1,949
Insurance and reinsurance debtors	**3,593**	3,592
Other debtors and other assets	**1,149**	1,114
Cash and cash equivalents	**1,162**	1,329
	21,827	22,785
Assets held for sale	**103**	-
Total assets	**21,930**	22,785
Equity and liabilities		
Equity		
Shareholders' funds	**2,893**	3,750
Non controlling interests	**121**	129
Total equity	**3,014**	3,879
Loan capital	**1,309**	1,311
Total equity and loan capital	**4,323**	5,190
Liabilities (excluding loan capital)		
Insurance contract liabilities	**15,001**	14,854
Insurance and reinsurance liabilities	**643**	558
Borrowings	**301**	296
Provisions and other liabilities	**1,662**	1,887
Total liabilities (excluding loan capital)	**17,607**	17,595
Total equity and liabilities	**21,930**	22,785

OTHER INFORMATION

MANAGEMENT BASIS

Cashflow

	12 Months 2013 £m	12 Months 2012 £m
Operating cashflow	**608**	552
Tax paid	**(102)**	(201)
Interest paid	**(117)**	(115)
Pension deficit funding	**(73)**	(73)
Cash generation	**316**	163
Group dividends	**(157)**	(286)
Dividend to non controlling interests	**(14)**	(2)
Issue of share capital	**7**	12
Net movement of debt	**4**	(1)
Corporate activity	**(42)**	(116)
Cash movement	**114**	(230)
Represented by:		
Movement in cash and cash equivalents	**(111)**	100
Purchase/(sales) of other investments	**225**	(330)
	114	(230)

ESTIMATION TECHNIQUES, RISKS, UNCERTAINTIES AND CONTINGENCIES

Introduction

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

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

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

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

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

Estimation techniques

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

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

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

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

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

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

The provisions for losses and loss adjustment expenses are subject to close scrutiny both within the Group's business units and at Group Corporate Centre. In addition, for major classes where the risks and uncertainties inherent in the provisions are greatest, regular and ad hoc detailed reviews are undertaken by advisers who are able to draw upon their specialist expertise and a broader knowledge of current industry trends in claims development. As an example, the Group's exposure to asbestos 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 and IFRS 13, are sensitive to assumptions including inflation, interest rate and mortality. IAS 19 compares, at a given date, the current market value of a pension fund's assets with its long term liabilities, which are calculated using a discount rate in line with yields on 'AA' rated bonds of suitable duration and currency. As such, the financial position of a pension fund on this basis is highly sensitive to changes in bond rates and will also be impacted by changes in equity markets.

Uncertainties and contingencies

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

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

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

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

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

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

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

The Group evaluates the concentration of exposures to individual and cumulative insurance risk and establishes its reinsurance policy to 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.

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 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. Based on current information 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' (negative 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.

Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED INCOME STATEMENT

STATUTORY BASIS

	12 Months 2013 (audited) £m	12 Months 2012 (audited) (restated) £m
Income		
Gross written premiums	**9,822**	9,397
Less: reinsurance premiums	**(1,158)**	(1,044)
Net written premiums	**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	**527**	534
Other operating income	**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	**(5,970)**	(5,389)
Underwriting and policy acquisition costs	**(2,701)**	(2,552)
Unwind of discount	**(160)**	(84)
Other operating expenses	**(544)**	(242)
Total expenses	**(9,375)**	(8,267)
Finance costs	**(125)**	(121)
Net share of loss after tax of associates	**(2)**	(6)
(Loss)/profit before tax	**(244)**	448
Income tax expense	**(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	**(9.8)p**	8.8p
Diluted	**(9.8)p**	8.7p

The attached notes form an integral part of these condensed consolidated financial statements. For dividend information refer to note 6.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

STATUTORY BASIS

	12 Months 2013 (audited) £m	12 Months 2012 (audited) (restated) £m
(Loss)/profit for the year	**(338)**	327
Items that may be reclassified to the income statement:		
Exchange losses net of tax	**(130)**	(70)
Share of associates' other comprehensive income	**(2)**	1
Fair value (losses)/gains on available for sale financial assets net of tax	**(257)**	111
	(389)	42
Items that will not be reclassified to the income statement:		
Re-measurement of net defined benefit pension liability net of tax	**17**	(137)
Movement in property revaluation surplus net of tax	**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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

STATUTORY BASIS

	Shareholders' funds £m	Non controlling interests £m	Total equity £m
Balance at 1 January 2012	3,801	114	3,915
Total comprehensive income for the year	232	4	236
Share issue including scrip	58	4	62
Changes in shareholders' interests in subsidiaries	(11)	10	(1)
Share based payments	6	-	6
Prior year final dividend	(206)	(3)	(209)
Current year interim dividend	(121)	-	(121)
Preference dividend	(9)	-	(9)
Balance at 1 January 2013	**3,750**	**129**	**3,879**
Total comprehensive income for the year	**(713)**	**5**	**(708)**
Share issue including scrip	**82**	**-**	**82**
Changes in shareholders' interests in subsidiaries	**(3)**	**1**	**(2)**
Share based payments	**9**	**-**	**9**
Prior year final dividend	**(140)**	**(14)**	**(154)**
Current year interim dividend	**(83)**	**-**	**(83)**
Preference dividend	**(9)**	**-**	**(9)**
Balance at 31 December 2013	**2,893**	**121**	**3,014**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

STATUTORY BASIS

	31 December 2013 (audited) £m	31 December 2012 (audited) £m
Assets		
Goodwill and other intangible assets	**1,103**	1,489
Property and equipment	**160**	272
Investment property	**331**	340
Investment in associates	**44**	40
Financial assets	**12,259**	12,660
Total investments	**12,634**	13,040
Reinsurers' share of insurance contract liabilities	**2,026**	1,949
Insurance and reinsurance debtors	**3,593**	3,592
Current tax assets	**60**	76
Deferred tax assets	**302**	285
Other debtors and other assets	**787**	753
	1,149	1,114
Cash and cash equivalents	**1,162**	1,329
	21,827	22,785
Assets held for sale	**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	**1,309**	1,311
Insurance contract liabilities	**15,001**	14,854
Insurance and reinsurance liabilities	**643**	558
Borrowings	**301**	296
Current tax liabilities	**57**	58
Deferred tax liabilities	**82**	139
Provisions	**366**	487
Other liabilities	**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

These condensed consolidated financial statements have been approved for issue by the Board of Directors on 26 February 2014.

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

CONDENSED CONSOLIDATED STATEMENT OF CASHFLOWS

STATUTORY BASIS

	12 Months 2013 (audited) £m	12 Months 2012 (audited) £m
Cashflows from operations	**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	**1,162**	1,329

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

RSA

EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Significant accounting policies

These condensed financial statements have been prepared by applying the accounting policies used in the 2013 Annual Report and Accounts (see note 10). There were a number of changes in International Financial Reporting Standards (IFRS) which have been adopted by the Group during the year. The changes with the largest impacts are detailed below.

Following the issue of a revised IAS 19 “Employee Benefits”, the Group has made changes to its accounting for employee benefits. The revised standard replaces expected returns on plan assets by recording interest in the income statement, which is calculated using the discount rate used to measure the pension obligations. Any difference in the actual return is recognised in other comprehensive income. This has resulted in a restatement of the comparative figures in the condensed consolidated income statement and corresponding opposite entries in the condensed consolidated statement of comprehensive income. These restatements reduce profit after tax by £24m for the 12 months to 31 December 2012. There is no change to the condensed consolidated statement of financial position.

Following an amendment to IAS 1 “Presentation of Financial Statements” the Group has made a change to the disclosure of items in the condensed consolidated statement of comprehensive income by separately classifying those items that will ultimately be recycled through the income statement and those items that will remain in equity. The comparatives in the condensed consolidated statement of comprehensive income have been classified in accordance with this new requirement.

Following the issue of IFRS 13 “Fair Value Measurement”, which establishes a framework for measuring fair value and associated disclosures, the Group has adopted the disclosure requirements in respect of financial instruments in the notes to these condensed consolidated financial statements. Financial assets and financial liabilities measured at fair value are valued using the techniques set out in the accounting policies used in the 2013 Annual Report and Accounts.

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

2. Operating segments

12 months ended 31 December 2013

	Scandinavia £m	**Canada £m**	**UK & Western Europe £m**	**Emerging markets £m**	**Central Functions £m**	**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**

12 months ended 31 December 2012 (restated)

	Scandinavia £m	Canada £m	UK & Western Europe £m	Emerging Markets £m	Central Functions £m	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

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

The comparatives have been restated for the revised IAS19 "Employee Benefits" standard as discussed in note 1.

3. Earnings per share

The earnings per share is calculated by reference to the result attributable to the ordinary shareholders of the Parent Company and the weighted average number of shares in issue during the period. On both a basic and diluted basis these were 3,632,179,765 (excluding those held in ESOP and SIP trusts). The number of shares in issue at 31 December 2013 was 3,681,798,995 (excluding those held in ESOP and SIP trusts).

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

The 2013 underwriting result of £57m, includes the impact of changes in the estimated costs of outstanding claims at 1 January 2013. The analysis of the underwriting result between the result of the current accident year and the result of earlier years is set out on page 22.

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

During 2013, 19,961,699 (2012: 19,335,754) ordinary shares were issued on the exercise of employee share options. The Company also issued 65,885,981 (2012: 45,594,331) ordinary shares under the scrip scheme approved by the shareholders at the 2009 Annual General Meeting.

6. Dividends

	31 December 2013		31 December 2012	
	Per share p	**Total £m**	Per share p	Total £m
Ordinary dividend				
Final paid in respect of prior year	**3.90**	**140**	5.82	206
Interim proposed/paid in respect of current year	**2.28**	**83**	3.41	121
	6.18	**223**	9.23	327
Preference dividend		**9**		9
		232		336

7. Exchange rates

	12 Months 2013		12 Months 2012	
Local currency/£	**Average**	**Closing**	Average	Closing
Canadian Dollar	**1.61**	**1.76**	1.58	1.62
Danish Krone	**8.79**	**8.97**	9.18	9.20
Swedish Krona	**10.20**	**10.64**	10.73	10.57
Euro	**1.18**	**1.20**	1.23	1.23

8. Fair value measurements recognised in the statement of financial position

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. 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			
	31 December 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	-	1,433	17	1,450
Total value of liabilities not measured at fair value	-	1,433	17	1,450

	Fair value hierarchy 31 December 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 at fair value	-	1,493	17	1,510

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**

There are no transfers between levels in the fair value hierarchy.

Total gains and losses for level 3 financial assets in the table above recognised in the income statement are included within the net investment return in the consolidated income statement.

Total gains and losses for level 3 financial assets in the table above recognised in other comprehensive income are included within fair value (losses)/ gains on available for sale financial assets, net of tax in the consolidated statement of comprehensive income.

9. Reconciliation of statutory cashflow to management basis

	12 Months 2013 £m	12 Months 2012 £m
Cash generated from operations	**241**	165
Investment income	**507**	526
Net purchase of property and equipment	**(36)**	(13)
Net purchase of intangibles	**(130)**	(146)
Dividends received from associates	**-**	1
Other items	**26**	19
Operating cashflow (management basis)	**608**	552

10. Results for 2013

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 December 2013 or 2012 but is derived from those accounts. Statutory accounts for 2012 have been delivered to the registrar of companies, and those for 2013 will be delivered in due course. The auditors have reported on those accounts; their reports were (i) unqualified (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

11. 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 issue is fully underwritten 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 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. The 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.

RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

- The financial statements within the full Annual Report and Accounts, from which the financial information within this preliminary announcement has been extracted, are prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and result of the Group,
- The management report within this preliminary announcement includes a fair review of the development and performance of the business and the position of the Group, and
- The estimation techniques, risks, uncertainties and contingencies section within this preliminary announcement includes a description of the principal risks and uncertainties faced by the Group.

Signed on behalf of the Board

Stephen Hester
Group Chief Executive

26 February 2014

Richard Houghton
Group Chief Financial Officer

26 February 2014

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FURTHER INFORMATION

The full text of the above is available online at www.rsagroup.com. A live webcast of the analyst presentation, including the question and answer session, will be broadcast on the website at 08:15am today and is available via a listen only conference call by dialling UK Freephone 0800 358 0856 or International dial in: + 44 (0) 20 8515 2319. Participants should quote conference ID 4669599. An indexed version of the webcast will be available on the website by the end of the day. Copies of the slides to be presented at the analyst meeting will be available on the site from 07:00am today. Scanning the QR code opposite will download details of the conference call to a smart phone.

MANAGEMENT BASIS OF REPORTING

The analysis on pages 1 to 30 has been prepared on a non statutory basis as management believe that this is the most appropriate method of assessing the financial performance of the Group. The management basis reflects the way management monitor the business. The underwriting result includes insurance premiums, claims and commissions and underwriting expenses. In addition, the management basis also discloses a number of items separately such as investment result, interest costs, reorganisation costs and other activities. Estimation techniques, risks, uncertainties and contingencies are included on pages 31 to 35. Financial information on a statutory basis is included on pages 37 to 46.

IMPORTANT DISCLAIMER

Visit www.rsagroup.com for more information.

This announcement is not a prospectus and investors should not acquire any securities of RSA except on the basis of information contained in a prospectus that may be issued in due course. The information contained in this announcement is for background purposes only and does not purport to be full or complete. The information in this announcement is based on preliminary results and is subject to change. RSA will publish its annual report on 24 March 2014 .

This announcement is not intended to and does not constitute or form part of any offer or invitation to purchase or subscribe for, or any solicitation to purchase or subscribe for, any securities of RSA or to take up any entitlements to rights. No part of this announcement should form the basis of, or be relied on in connection with, any contract or commitment or investment decision whatsoever.

Specifically, this announcement does not constitute or form part of and should not be construed as an offer or solicitation to purchase or subscribe for securities of the Company in the United States, Australia, Canada or Japan. None of RSA's securities have been or will be registered under the US Securities Act of 1933, as amended (the "Securities Act") or under the applicable securities laws of any state or other jurisdiction of the United States or the securities legislation of any province or territory of Canada or South Africa. There will be no public offer of RSA securities in the United States, Canada or South Africa.

This announcement contains 'forward-looking statements' with respect to certain of RSA's plans and its current goals and expectations relating to its future financial condition, performance, results, strategic initiatives and objectives, including in relation to the rights issue. Generally, words such as "may," "could," "will," "expect," "intend," "estimate," "anticipate," "aim," "outlook," "pro forma," "believe," "plan," "seek," "continue" or similar expressions identify forward-looking statements. These forward-looking statements are not guarantees of future performance. By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances that are beyond RSA's control, including among other things, the success of the strategic action plan described above; UK domestic and global economic business conditions; the frequency, severity and development of insured claim events; changes in financial strength and credit ratings; uncertainties affecting reserves; weather-related and other catastrophe events; fluctuations in interest rates and exchange rates; competition; tax audits, the ability to realize tax loss carryforwards and the ability to realize deferred tax assets (including by reason of the mix of earnings in a jurisdiction or deemed change of control); current, pending and future legislation and regulation, interpretations of legislation or regulations by regulators and discretionary action taken by regulators; legal actions or regulatory investigations, including those in respect of industry requirements or business conduct rules of general applicability; changes in accounting standards; and any further internal control failures.

RSA's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set forth in the RSA's forward-looking statements. Forward-looking statements in this announcement are current only as of the date on which such statements are made. RSA undertakes no obligation to update any forward-looking statements, save in respect of any requirement under applicable law or regulation. Nothing in this announcement should be construed as a profit forecast.