

25 February 2010

YEAR END RESULTS 2009**Strong Performance in 2009**

- Net written premiums of £6.7bn up 4%
- Combined operating ratio (COR) of 94.6%
- Operating result of £777m
- IGD surplus of £1.7bn, representing coverage of 2.4x
- Net asset value per share excluding IAS 19 of 106p
- Maintaining tight grip and strong financial management

Delivery against strategic objectives

- Driving the Group forward through targeted growth and acquisitions
- Continued action on rate and expenses
- Significant de-risking of pension schemes in 2009. Further action in 2010
- Strong capital and financial position

Outlook

- Although economic uncertainties remain, confident of continuing to deliver excellent results
- Good start to 2010 and on top line going forward we expect:
 - International to deliver mid single digit growth
 - UK to move to positive territory
 - Emerging Markets to return to double digit growth over time
- Combined operating ratio for 2010 expected to be around 95%
- Investment income for 2010 expected to be around £540m with total gains around 2009 levels
- Final dividend increased by 7% to 5.33p, giving a full year dividend increase of 7%

	12 Months 2009	12 Months 2008	Movement*
Net written premiums	£6,737m	£6,462m	+4 %
Underwriting result	£386m	£384m	+1 %
Combined operating ratio	94.6%	94.5%	(0.1)pts
Operating result ⁽¹⁾	£777m	£867m	(10)%
Profit before tax ⁽¹⁾	£554m	£759m	(27)%
Profit after tax ⁽¹⁾	£419m	£586m	(28)%
	31 December 2009	31 December 2008	
Financial position			
Shareholders' funds	£3,491m	£3,839m	(9)%
Net asset value per share excluding IAS 19	106p	101p	+5 %
Net asset value per share	99p	112p	(12)%
Final dividend for the year per ordinary share	5.33p	4.98p	+7%
Dividend for the year per ordinary share	8.25p	7.71p	+7%

* Reported exchange rate

Andy Haste, Group CEO of RSA, commented:

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

As we move into 2010, economic uncertainties remain. However, we are confident of our ability to continue to deliver excellent results. We have a great portfolio of businesses with strong market positions and remain committed to driving top and bottom line growth. We have made a good start to the year, continuing to push hard for profitable growth while maintaining underwriting discipline and, as it stands today, we expect to achieve a combined operating ratio for 2010 of around 95%. The 7% increase in the final dividend to 5.33p (2008: 4.98p) reflects our positive outlook for the Group."

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Important disclaimer

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This press release (together with the Annual Report and Accounts referred to herein) has been prepared in accordance with the requirements of English company law and the liabilities of the directors in connection with this press release (together with the Annual Report and Accounts referred to herein) shall be subject to the limitations and restrictions provided by such law. This press release may contain 'forward-looking statements' with respect to certain of the Group's plans and its current goals and expectations relating to its future financial condition, performance, results, strategic initiatives and objectives. Generally, words such as "may", "could", "will", "expect", "intend", "estimate", "anticipate", "aim", "outlook", "believe", "plan", "seek", "continue" or similar expressions identify forward-looking statements. These forward-looking statements are not guarantees of future performance. By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances which are beyond the Group's control, including amongst other things, UK domestic and global economic business conditions, market-related risks such as fluctuations in interest rates and exchange rates, the policies and actions of regulatory authorities (including changes related to capital and solvency requirements), the impact of competition, inflation, deflation, the timing impact and other uncertainties of future acquisitions or combinations within relevant industries, as well as the impact of tax and other legislation and other regulations in the jurisdictions in which the Group and its affiliates operate. As a result, the Group's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set forth in the Group's forward-looking statements. The Group undertakes no obligation to update any forward-looking statements, save in respect of any requirement under applicable law or regulation. Nothing in this press release (together with the Annual Report and Accounts referred to herein) should be construed as a profit forecast.

⁽¹⁾ For a reconciliation of operating result to profit after tax see page 13.

MANAGEMENT REPORT

CEO REVIEW

The Group has delivered another strong performance. We continue to drive the business forward, through both targeted organic growth and acquisitions and have again clearly demonstrated the benefits of our strong and diversified portfolio. Net written premiums are up 4% to £6.7bn (down 1% at constant exchange), with the impact of the downturn offset by our actions on targeted growth and rate, as well as the benefit of foreign exchange. The underwriting result is up by 1% to £386m, reflecting the impact of our continued action on rate and expenses and improved large losses offset by adverse weather. The combined operating ratio (COR) is 94.6% (2008: 94.5%).

The investment result is £523m (2008: £594m) and includes investment income of £595m, in line with guidance, and total gains of £28m (2008: £32m), slightly ahead of guidance due to the positive performance of our commercial property portfolio in the final quarter. The operating result is £777m and profit before tax of £554m is after £75m of reorganisation costs for the UK cost reduction programme announced in February 2009. Profit after tax is £419m (2008: £586m). The underlying return on opening equity is 12.7% (2008: 18.5%), with the movement on 2008 due to the expected lower investment income and the impact of foreign exchange on the opening 2009 shareholders' funds. The underlying return on equity based on average shareholders' funds was 13.4% for 2009 compared with 16.4% in 2008.

Business Overview

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

	Net written premiums				Combined operating ratio		
	12 Months 2009	12 Months 2008	Movement as reported	Movement at constant exchange	12 Months 2009	12 Months 2008	Movement
	£m	£m	%	%	%	%	Points
International	3,249	2,998	8	-	91.7	91.2	(0.5)
UK	2,632	2,711	(3)	(3)	98.0	97.6	(0.4)
Emerging Markets	833	738	13	2	95.1	96.4	1.3
Group Re	23	15	53	53	-	-	-
Total Group	6,737	6,462	4	(1)	94.6	94.5	(0.1)

- International

International, our largest region, has again delivered an outstanding performance. Premiums are up by 8% to £3,249m (flat at constant exchange) reflecting continued action on rate, targeted growth and the benefit of new deals offsetting the economic downturn. The COR is an excellent 91.7% with the underwriting result up by 8% to £282m.

In Scandinavia, premiums are up by 4% to £1,669m (down 1% at constant exchange), with good growth in Personal lines and Norway offsetting exposure reductions in Commercial lines. Strong performances in Personal Motor, Personal Accident and Marine have driven a significant increase in the underwriting result, up 27% to £242m with a COR of 86.2%. This is an excellent result and well ahead of the assumptions used at the time of the Codan minority buyout in 2007.

In Canada, top line performance has been strong with premiums up by 15% to £1,021m (5% at constant exchange), driven by Personal lines, with Johnson delivering another excellent performance, increasing premiums by 19% (8% at constant exchange). The underwriting result is also strong at £63m, and is up by 11% with a combined of 93.5% despite severe weather.

In Other Europe, premiums are up by 9% to £559m (down 2% at constant exchange) with a COR of 105%. In Ireland premium growth of 5% at constant exchange was driven by rate, significant new Affinity wins and the benefit of prior year acquisitions. The COR is a very strong 91% and is after a £10m charge for the year for the November floods. In Italy, as disclosed at the half year, the new management team have dealt with the move to Direct Indemnification and the L'Aquila earthquake. In the second half we've continued to take action on our Motor book. We expect to start seeing the benefit of these actions in the underwriting result going forward.

With our focus on rate and risk selection, we are one of the most profitable insurers in Scandinavia, Canada and Ireland and we are confident that the International portfolio will continue to deliver good top line growth and strong bottom line profitability.

- UK

The UK remains a tough market and premiums are stable at £2,632m, with the impact of the downturn mitigated by targeted growth and action on rate. The underwriting result remains positive at £75m with a COR of 98%.

In Personal, premiums were in line with 2008 at £1,095m, with lower Household premiums offset by 5% growth in Motor driven by Broker Panels and Affinity. Pet continued to perform well and premiums are up 17%. In Commercial, premiums declined by 5% to £1,537m, with lower Motor premiums mitigated by strong growth in Specialty lines, with European Risk Solutions up by 47% and Marine up 21%.

We have continued to take action on rate, achieving renewal increases in Commercial of 6% in Motor, 8% in Liability, and 3% in Property and in Personal we've increased Motor rates by 7% and Household by 3%. We also continue to push rate hard on Motor new business and have achieved double digit increases in Personal lines.

On costs, we have achieved run rate savings of £64m and expect to deliver the full £70m by the end of the first quarter of 2010, ahead of our target of mid 2010. Costs to date are £75m against the expected £80m for the complete programme. On headcount we have achieved the reduction of 1,200 heads announced in February 2009 and UK heads of 7,750 are down over 40% since 2003.

As we move into 2010, the UK remains competitive, but we've made a good start to the year. In January, premiums in European Risk Solutions were up by 10% and Marine was up by 5%. In Personal, we have won deals with HomeServe and the West Bromwich Building Society and we're also currently in advanced negotiations with Tesco regarding an Affinity partnership for their Pet account.

- Emerging Markets

In Emerging Markets, premiums are up by 13% to £833m (2% at constant exchange). Including associates, total Emerging Markets premiums are £954m. The underwriting result increased by 26% to £29m reflecting the early actions we took to protect profitability, including headcount reductions of over 600 across Asia and the Middle East and Central and Eastern Europe.

In Asia and the Middle East, premiums grew by 47% (24% at constant exchange) with the benefit of large construction contract wins and good growth in Singapore and Oman. Our India, our associate continues to perform well with 18% growth to £86m (10% on constant exchange). In Latin America, premiums are up 8% (2% at constant exchange), driven by good growth in Affinity where we have signed 13 new deals. In Central and Eastern Europe, premiums are down by 6% (down 16% at constant exchange) due to the expected impact of the economic downturn in the Baltics, where we have maintained our market leading position. Our Intouch operations across Poland, the Czech Republic and Russia continued to grow.

While short term conditions remain challenging, especially in the Baltics, Emerging Markets remains attractive and has huge potential and we will continue to invest in the region.

Outlook

As we move into 2010, economic uncertainties remain. However, our portfolio of businesses is strong, with attractive market positions and we are confident of our ability to continue to deliver excellent results. We will continue to drive the top line and going forward, would expect International to deliver mid single digit growth, the UK to move to positive territory and over time, double digit growth to return to Emerging Markets. Organic growth will continue to be supported by acquisitions. We have an active deal pipeline and an established track record of successful completion and integration, having executed around 30 deals since 2003 and already announced two deals in the first two months of 2010.

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

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

As a reflection of the Board's confidence in the future performance of the Group, we are increasing the recommended final dividend by 7% to 5.33p (2008: 4.98p).

Andy Haste, Group CEO, RSA

OPERATIONS REVIEW

Operating Result

The operating result is £777m (2008: £867m) and is driven by positive underwriting performances in all regions and an investment result of £523m. The underwriting result is up 1% to £386m (2008: £384m), with a current year underwriting profit of £100m (2008: £93m) and a prior year profit of £286m (2008: £291m). The movement in the current year result reflects the continued benefits of management actions and improved large losses (£34m better than 2008), offset by adverse weather (£55m worse than 2008), primarily in International. Across the Group we continue to review lead and performance indicators each month and while there are some isolated pockets, we are still not seeing any systemic claims trends relating to the downturn. The strong prior year result reflects continued positive run off from all three regions, particularly Scandinavia and Canada and the expected lower, but still strong, contribution from the UK.

The Group continues to adopt a prudent reserving policy for both current year and overall reserves. At 31 December 2009, reserves remain significantly to the right side of best estimate. Going forward, given our prudent reserving policy, we would expect positive prior year development to continue to be a significant feature of the underwriting result.

- International

International has delivered an outstanding performance. Net written premiums are up 8% to £3,249m (in line with 2008 at constant exchange). This reflects continued action on rate across the region, targeted growth and the benefit of new deals, offset by reductions in exposure and portfolio actions. Premium growth comprises 15% growth in Canada (up 5% at constant exchange), 4% growth in Scandinavia (down 1% at constant exchange) and 9% growth in Other Europe (down 2% at constant exchange). International delivered a strong underwriting result, with an 8% increase in underwriting profit to £282m and an excellent COR of 91.7% (2008: 91.2%). Our continued actions on operational excellence underpin this result and we are on track to deliver the additional £25m of cost savings in Scandinavia announced in May 2008.

In Scandinavia, Personal lines performed strongly and premiums are up 8% to £944m (4% at constant exchange) reflecting good growth in Norway, Personal Accident and Danish Contents. In Denmark, bancassurance continues to perform well and in Sweden, we have recently strengthened our bancassurance proposition with the acquisition, announced in January 2010, of Sveland, the ninth largest private insurer. Commercial lines net written premiums were in line with 2008 at £725m (down 7% on constant exchange), with good growth in Norway and the benefit of foreign exchange offset by the impact of the downturn and a reduction in exposure. The Scandinavian COR improved by 2.1 points to an excellent 86.2% driven by Personal Motor, Personal Accident and Marine.

In Canada, Personal net written premiums increased by 17% to £778m (up 6% at constant exchange) with Personal Intermediated up by 14% (4% at constant exchange) and Johnson, our direct business up by 19% (8% at constant exchange) driven by excellent retention, rate and the addition of 20 new sponsorship groups during the year. Commercial net written premiums increased by around 12% to £243m (2% at constant exchange) due to a strong performance in Specialty lines and rate increases offsetting the withdrawal of capacity in those sectors most impacted by the recession. Profitability remains strong despite adverse weather, with the underwriting result up 11% to £63m and a COR of 93.5% (2008: 92.9%).

In Other Europe, premiums are up by 9% to £559m (down 2% at constant exchange) with 5% growth at constant exchange in Ireland driven by new Affinity deals including Tesco and the main Irish nurses scheme, the benefit of acquisitions and our early action on rate offset by a reduction in Personal Motor in Italy. The COR for Other Europe is 105% (2008: 97.1%), with Ireland achieving a very strong 91% after a £10m charge for the year for the November floods. In Italy, as reported at the half year, the new management team have dealt with the move to Direct Indemnification and the L'Aquila earthquake. In the second half we've continued to take action on our Motor book. We expect to start seeing the benefit of these actions in the underwriting result going forward.

We remain confident that across the International portfolio we'll continue to show mid single digit top line growth and strong profitability.

- UK

The UK remains a tough market and we are maintaining our strategy of targeting profitable growth, taking the right action on rate and selective capacity withdrawal where we cannot achieve target returns. As a result, premiums of £2,632m are down by 3% on 2008. The underwriting result is £75m (2008: £99m) benefitting from an improvement in large losses offset by the expected, more normalised levels of prior year development and the COR is 98% (2008: 97.6%).

In Personal, premiums are in line with 2008 at £1,095m. Motor grew by 5% driven by rate increase in Broker Panels and Affinity. Pet again grew strongly, with premiums up by 17%. In Commercial, overall premiums of £1,537m are down 5% on last year. The reduction in Motor premiums and our withdrawal of capacity from industries more exposed to the downturn have been partially offset by strong growth in Specialty lines, including European Risk Solutions which is up by 47% and Marine, up by 21%. We continue to take action on rate, increasing renewal rates in Commercial by 6% in Motor, 8% in Liability and 3% in Property. In Personal we achieved 7% on Motor renewals and 3% in Household. We also continue to push rate hard on Motor new business and have achieved double digit increases in Personal lines.

The UK expense ratio including commissions is 34.3%, compared with 33.3% in 2008. As reported at the half year, this reflects lower premium levels and continued investment in the business offset by expense savings. The expense savings programme announced in February 2009 is expected to complete in the first quarter of 2010, ahead of our target of mid 2010. We have already achieved the target headcount reduction of 1,200 and generated £64m of annualised savings at a cost of £75m against the expected £80m for the full programme. We remain on target to deliver an expense ratio of around 14% by the end of 2012.

Looking forward, we've made a good start to 2010 with European Risk Solutions up 10% and Marine up by 5% in January. In Personal, we have won deals with HomeServe and the West Bromwich Building Society and we are also currently in advanced negotiations with Tesco regarding an Affinity partnership for their Pet account. Although the market remains competitive, with the actions we have taken to re-focus and re-organise the business we are well placed and we expect the top line to move to positive territory.

- Emerging Markets

In Emerging Markets, premiums are up by 13% to £833m (2% at constant exchange) reflecting several large construction wins, continued success in Affinity and foreign exchange offsetting the impact of the economic downturn. Total premiums including our Indian associate were £954m. Emerging Markets delivered an excellent underwriting result of £29m, up 26% on the prior year due to our early action on rate and expenses, including a reduction in headcount of over 600 across Asia and the Middle East and Central and Eastern Europe. The COR is 95.1% compared with 96.4% in 2008.

In Asia and the Middle East, premiums are up by 47% (24% at constant exchange) with the benefit of several large construction contract wins and good growth in Singapore and Oman, where we've recently announced the acquisition of Al Ahlia, creating the largest insurer in the market by net written premiums. Our associate in India also performed strongly with premiums up by 18% to £86m (10% on constant exchange) primarily due to the impact on Motor of buoyant new car sales.

In Latin America, premiums are up by 8% (2% at constant exchange), reflecting growth in Brazil, Colombia and Uruguay offset by a reduction in Mexico and the move to six month policies in Argentina. We continued to build our Affinity capability in the region and signed 13 new deals including Citibank in Colombia, Claro in Argentina and Santander in Mexico.

In Central and Eastern Europe, premiums are down by 6% (down 16% on constant exchange). As expected, the Baltics was particularly impacted by the economic downturn, however, we continue to maintain our market leading position. Our Intouch businesses across Poland, Russia and the Czech Republic, which we consolidated from 1 July 2009, continued to grow.

Although short term economic conditions remain challenging, particularly in the Baltics, Emerging Markets has huge potential and we will continue to invest in the region. As we look forward, we would expect the region to return to double digit growth and are confident of achieving our target of £1bn of premiums by the end of 2010.

- Rating movements

Rate movements achieved for risks renewing in December 2009 versus comparable risks renewing in December 2008 are set out in the table below. Our action on rating demonstrates our commitment to maintaining pricing discipline and to delivering sustainable profitable performance.

	Personal		Commercial		
	Motor %	Household %	Motor %	Liability %	Property %
UK	7	3	6	8	3
Scandinavia	4	7	(1)	2	4
Canada	5	10	5	1	2

- Other activities

The analysis of the other activities result is as follows:

	12 Months 2009 £m	12 Months 2008 £m	Movement
Central expenses	(60)	(61)	2 %
Investment expenses and charges	(30)	(26)	(15)%
Other operating activities	(42)	(24)	(75)%
Other activities	(132)	(111)	(19)%

Other activities of £132m (2008: £111m) comprise central expenses, which are flat on the prior year, investment expenses and the ongoing investments in our associate in India and direct operations in Central and Eastern Europe. As reported at the half year, we will continue to charge the investment in Russia and the Czech Republic to other activities. In 2009 this investment was £29m compared with £16m in 2008, primarily reflecting the move from associate to wholly owned subsidiary. In 2010, we would expect this investment to be around similar levels.

- Investment result

The analysis of the investment results is as follows:

	12 Months	12 Months	Movement
	2009	2008	
	£m	£m	
Bonds	466	478	(3)%
Equities	58	50	16 %
Cash and cash equivalents	17	57	(70)%
Land and buildings	21	16	31 %
Other	33	53	(38)%
Investment income	595	654	(9)%
Realised gains	69	150	(54)%
Unrealised gains/(losses), impairments and foreign exchange	(41)	(118)	65%
Total gains	28	32	(13)%
Unwind of discount including ADC	(100)	(92)	(9)%
Investment result	523	594	(12)%

The Group continues to maintain a low risk investment strategy with the portfolio dominated by high quality fixed income and cash assets. The investment result is £523m (2008: £594m) and includes investment income of £595m, in line with guidance. Total gains of £28m are slightly ahead of guidance due to the strong performance of the commercial property portfolio in the final quarter. The unwind of discount is up to £100m due mostly to foreign exchange.

The decline in investment income to £595m primarily reflects the lower returns on cash assets, partially offset by action taken to lock in higher returns as well as the impact of foreign exchange. The average underlying yield on the portfolio (excluding the yield on the ADC funds withheld account) was 3.9% (2008: 4.6%), with a 1.1% return on cash assets and 4.2% on the remainder of the portfolio.

Total gains of £28m (2008: £32m) include realised gains of £69m on bond and equity sales, mark to market movements on commercial property of £7m and foreign exchange of £6m, offset by unrealised losses on derivatives of £28m and impairments of £24m.

We have taken action to mitigate the impact of falling yields and, as previously reported, this includes the selective purchase of high quality non government bonds. Non governments now form 54% of the fixed income portfolio, up from 48% at the end of 2008. The non government bond purchases had an average credit rating of AA- and were well diversified by sector and individual name. In addition, we have reduced cash balances and modestly extended duration to take account of the higher yield offered by longer dated bonds.

As it stands today and with the actions we are taking, we expect investment income for 2010 to be around £540m and total gains to be around 2009 levels. The value of commercial property is expected to broadly track the IPD index.

The table below sets out the key movements in the investment portfolio during 2009:

	Value 31/12/2008 £m	Foreign Exchange £m	Mark to Market £m	Other Movements £m	Value 31/12/2009 £m
Government Bonds	6,011	(129)	(81)	(491)	5,310
Non Government Bonds	5,631	(97)	123	541	6,198
Cash	1,614	(50)	-	(568)	996
Equities	780	1	157	49	987
Property	365	(9)	7	28	391
Prefs & CIVs	160	7	57	41	265
Other	166	(1)	(2)	(23)	140
Total	14,727	(278)	261	(423)	14,287

The investment portfolio decreased by 3% over the year to £14,287m, with mark to market movements of £261m offset by foreign exchange of £278m and other movements of £423m. The mark to market movement reflects positives on most asset classes offset by negative movements on government bonds. The foreign exchange movement reflects the appreciation of Sterling against the Euro, the Danish Krone and the Swedish Krona. Other movements primarily reflects net purchases and sales and a number of asset reclassifications including the transfer of British Engine's assets to "held for sale", pending completion of the disposal, and the netting of deposits lodged by reinsurers against other credit balances.

At 31 December 2009, unrealised gains in the statement of financial position were £509m (31 December 2008: £263m).

87% of the total investment portfolio remains invested in high quality fixed income and cash assets. The fixed interest portfolio is concentrated on high quality short dated assets, with 99% of the bond portfolio investment grade, and 80% rated AA or above. The bond holdings are well diversified, with 73% invested in currencies other than Sterling, and 54% invested in non government bonds (31 December 2008: 48%). The average duration for the portfolio is 3.0 years (2008: 2.7 years).

The government bond portfolio of £5.3bn is high quality, with 88% rated AAA and 96% rated A or above. Our exposure to Greece, Ireland, Portugal and Spain at the year end was £193m, just over 1% of the total portfolio. Of this exposure, over £100m is held to back the liabilities of our insurance operations in Ireland and we have only £8m of Greek government debt.

The non government bond portfolio of £6.2bn comprises £1.9bn of Scandinavian Mortgage Bonds, £2.3bn of other financials and £2.0bn of non financials. The Scandinavian Mortgage Bonds portfolio comprises £1.2bn of Swedish bonds, which are all rated AAA, and £0.7bn of Danish bonds, which are principally rated AAA. The average duration on the Scandinavian Mortgage Bond portfolio is 2.3 years with an average LTV of around 60%. Within the £2.3bn of other financial exposure, £0.5bn is in supranational and sovereign backed entities, £0.2bn in other non bank financials and £1.6bn in banks. Of the £1.6bn in banks, just £275m of this is subordinated debt and only £57m is Tier 1, the vast majority of which is in Canadian banks, with only £3m in the UK.

Equities (excluding preference shares and Collective Investment Vehicles backed by fixed income and cash) comprised 7% of the portfolio. We continue to hedge our equity portfolio, with around 65% of the exposure hedged with a rolling programme of put and call options, providing protection down to a FTSE level of 2,800. The commercial property portfolio is 3% of investment assets and comprises high quality commercial properties.

Going forward, we will continue to take measured action to enhance the yield of the funds. As previously reported, we will continue to purchase high quality non government bonds and anticipate non governments increasing to around 60% of the fixed income portfolio. We also see opportunities for a further measured increase in equity and property holdings.

OTHER INFORMATION

Capital position

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

	31 December 2009 Requirement £bn	31 December 2009 Surplus £bn	31 December 2008 Surplus £bn
Insurance Groups Directive	1.2	1.7	1.7

The IGD surplus is £1.7bn (31 December 2008: £1.7bn) and coverage over the IGD requirement remains strong at 2.4 times (31 December 2008: 2.5 times). A 30% fall in the FTSE from the 31 December level of around 5,413 would reduce the IGD surplus by an estimated £0.2bn.

The Group is currently working hard in preparation for Solvency II. Solvency II is a fundamental overhaul of the capital adequacy regime for European insurers and reinsurers, which we expect to become law on 31 October 2012. The Group welcomes the increased focus on good risk management and the more risk based approach to solvency calculations proposed by Solvency II. However, along with the rest of the industry, we are concerned about the level of prudence in the proposed calibration for the standard formula calculations of capital. We are lobbying hard, engaging directly with industry groups and regulators and believe that the eventual outcome will be a sensible one.

We have established a cross-functional team covering capital and risk management, modelling, actuarial, regulatory and IT to lead the implementation of Solvency II across the Group. The team report to a Steering Committee which provides oversight and governance on behalf of the Executive Management to the Board and Board Risk Committee. The Group CFO is the Board member responsible for Solvency II.

As a reflection of the strength of our capital management and modelling capabilities, we are one of only four insurance companies selected by the FSA to work with them on a pilot approval process for internal models. This positions us at the forefront of discussions on Solvency II.

At 31 December 2009, the Group had surplus economic capital of around £1.8bn (31 December 2008: £1.8bn), calculated to fully reflect current asset values and lower current and future investment returns. The economic capital is based on a risk tolerance consistent with Standard & Poor's long term 'A' rated bond default curve. This is equivalent to a probability of solvency over one year of 99.92%. The Group calculates its economic capital position using a global multi year stochastic economic capital model. The model is a key decision making tool and is used for a range of strategic, operational and financial management purposes throughout the Group, and has also been the basis for the Group's Individual Capital Assessment submissions to the FSA since the 2004 year end.

Our financing and liquidity position is strong. The next call on any external financing is on the £450m subordinated guaranteed perpetual bonds in December 2014 and our committed £455m senior facility remains undrawn. New subordinated guaranteed Sterling dated notes were issued on 20 May 2009. The notes have a nominal value of £500m and bear interest at a fixed rate of 9.375% until 20 May 2039. The Group has the option to repay the notes on specific dates after 20 May 2019.

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

Return on equity

Underlying return on opening equity is 12.7% (2008: 18.5%), with the movement on the prior year reflecting higher opening net assets and the expected lower investment income. It is calculated as the profit after tax attributable to ordinary shareholders from continuing operations, excluding profits and losses on disposals and reorganisation costs expressed in relation to opening shareholders' funds attributable to ordinary shareholders.

The underlying return on equity based on average shareholders' funds was 13.4% for 2009 compared with 16.4% in 2008.

Combined operating ratio

The combined operating ratio represents the sum of expense and commission costs expressed in relation to net written premiums and claims costs expressed in relation to net earned premiums. The calculation of the COR of 94.6% was based on net written premiums of £6,737m and net earned premiums of £6,753m.

Net asset value per share

The net asset value per share at 31 December 2009 excluding IAS 19 was 106p (31 December 2008: 101p) and including the pension deficit was 99p (31 December 2008: 112p). At 19 February 2010, the net asset value per share excluding IAS 19 was estimated at 107p and including the pension deficit was estimated at 100p.

The net asset value per share at 31 December 2009 was based on total shareholders' funds of £3,491m, adjusted by £125m for preference shares, and shares in issue at the period end of 3,412,572,235 (excluding those held in the ESOP trusts).

Earnings per share

The earnings per share is calculated by reference to the result attributable to the equity shareholders and the weighted average number of shares in issue during the period. Operating earnings per share is calculated by reference to the result attributable to the equity shareholders excluding amortisation, reorganisation costs and profits and losses on disposals and the weighted average number of shares in issue during the period.

On a basic and diluted basis the weighted average number of shares in issue was 3,349,320,800 and 3,383,210,411 respectively (excluding those held in ESOP trusts). The number of shares in issue at 31 December 2009 was 3,412,572,235 (excluding those held in ESOP trusts).

Dividend

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

The final dividend will be payable on 4 June 2010 to shareholders on the register at the close of business on 5 March 2010. Shareholders will be offered a scrip dividend alternative. Scrip dividend mandates need to be received by Equiniti Limited before 6 May 2010. The first preference share dividend for 2010 will be payable on 1 April 2010 to holders of such shares on the register at the close of business on 5 March 2010.

Related party transactions

In 2009, there have been no related party transactions that have materially affected the financial position of the Group.

FURTHER INFORMATION

The full text of the above is available to the public at 1 Leadenhall Street, London EC3V 1PP. The text is also available online at www.rsagroup.com. A live audiocast of the analyst presentation, including the question and answer session, will be broadcast on the website at **10.00am** today and is available via a listen only conference call by dialling UK Freephone 0800 358 5263 or International dial in: + 44 (0) 207 190 1232. An indexed version of the audiocast will be available on the website by the end of the day. Copies of the slides to be presented at the analyst meeting will be available on the site from **9.30am** today.

A Q1 interim management statement will be released on 6 May 2010.

The half yearly 2010 results will be announced on 5 August 2010.

MANAGEMENT BASIS OF REPORTING

The following analysis on pages 13 to 16 has been prepared on a non statutory basis as management believe that this is the most appropriate method of assessing the financial performance of the Group. The management basis reflects the way management monitor the business. The underwriting result includes insurance premiums, claims and commissions and underwriting expenses. In addition, the management basis also discloses a number of items separately such as investment result, interest costs, reorganisation costs and other activities. Estimation techniques, risks, uncertainties and contingencies are included on pages 20 to 22. Financial information on a statutory basis is included on pages 23 to 30.

SUMMARY CONSOLIDATED INCOME STATEMENT

MANAGEMENT BASIS

	12 Months 2009 £m	12 Months 2008 £m
Continuing operations		
Net written premiums	6,737	6,462
Underwriting result	386	384
Investment income	595	654
Realised gains	69	150
Unrealised gains/(losses), impairments and foreign exchange	(41)	(118)
Unwind of discount including ADC	(100)	(92)
Investment result	523	594
Insurance result	909	978
Other activities	(132)	(111)
Operating result	777	867
Interest costs	(116)	(108)
Amortisation	(25)	(18)
Reorganisation costs	(75)	-
Profit before disposals	561	741
(Loss)/profit on disposals	(7)	18
Profit before tax	554	759
Taxation	(135)	(173)
Profit after tax	419	586

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

Basic	12.2p	17.3p
Diluted	12.1p	17.0p

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

Basic	14.4p	16.7p
Diluted	14.3p	16.5p

SUMMARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION

MANAGEMENT BASIS

	31 December 2009 £m	31 December 2008 £m
Assets		
Goodwill and other intangible assets	969	744
Property and equipment	284	309
Associated undertakings	31	123
Investments		
Investment property	391	365
Equity securities	1,252	940
Debt and fixed income securities	11,508	11,642
Other	140	166
Total investments - management basis	13,291	13,113
Reinsurers' share of insurance contract liabilities	1,795	1,759
Insurance and reinsurance debtors	2,812	2,890
Deferred acquisition costs	674	653
Other debtors and other assets	988	1,659
Cash and cash equivalents	996	1,614
Assets associated with continuing operations	21,840	22,864
Assets held for sale*	201	3
Total assets	22,041	22,867
Equity, reserves and liabilities		
Equity and reserves		
Shareholders' funds	3,491	3,839
Minority interests	97	81
Total equity and reserves	3,588	3,920
Loan capital	1,317	1,311
Total equity, reserves and loan capital	4,905	5,231
Liabilities (excluding loan capital)		
Insurance contract liabilities	14,451	15,055
Insurance and reinsurance liabilities	493	545
Borrowings	295	300
Provisions and other liabilities	1,734	1,736
Liabilities associated with continuing operations	16,973	17,636
Liabilities held for sale*	163	-
Total liabilities (excluding loan capital)	17,136	17,636
Total equity, reserves and liabilities	22,041	22,867

These summary consolidated financial statements have been approved for issue by the Board of Directors on 24 February 2010.

* Assets and liabilities held for sale in 2009 relate to the British Engine legacy business, pending completion of the disposal announced on 30 September 2009, and properties in the UK and Scandinavia.

OTHER INFORMATION

MANAGEMENT BASIS

Movement in net assets

	Shareholders' funds	Minority interest	Loan capital	Net assets
	£m	£m	£m	£m
Balance at 1 January 2009	3,839	81	1,311	5,231
Profit after tax	418	1	-	419
Exchange losses net of tax	(104)	(4)	(18)	(126)
Fair value gains net of tax	184	-	-	184
Pension fund actuarial losses net of tax	(691)	-	-	(691)
Issue of loan capital	-	-	491	491
Amortisation and repayment of loan capital	-	-	(467)	(467)
Share issue	89	-	-	89
Changes in shareholders' interests in subsidiaries	-	22	-	22
Share based payments	29	-	-	29
Prior year final dividend	(165)	(3)	-	(168)
Current year interim dividend	(99)	-	-	(99)
Preference dividend	(9)	-	-	(9)
Balance at 31 December 2009	3,491	97	1,317	4,905

Net assets have decreased by £326m to £4,905m. This primarily reflects the profit after tax for the period of £419m and fair value gains of £184m, offset by exchange losses of £126m, pension fund actuarial losses of £691m and dividends paid in 2009 of £276m.

Pension fund position

The table below provides a reconciliation of the Group's pension fund position (net of tax) from 1 January 2009 to 31 December 2009.

	UK £m	Other £m	Group £m
Pension fund at 1 January 2009	412	(49)	363
Actuarial losses	(678)	(13)	(691)
Asset reallocation funding	28	-	28
Other movements	14	24	38
Pension fund at 31 December 2009	(224)	(38)	(262)

The deficit on the Group's pension schemes as at 31 December 2009 is £262m compared with a surplus of £363m at the start of the year. The movement primarily reflects the impact of the de-risking of the UK pension schemes announced on 14 July 2009 and changes in assumptions. This de-risking provides protection against longevity and market risk for around one third of the UK schemes' liabilities and significantly reduced the sensitivity of the scheme as a result. The impact of the assumption changes and dampening of the sensitivity has reduced the impact of the de-risking on the surplus from the expected £361m, as reported on 14 July, to £224m.

In line with decreasing bond yields, the discount rate for the UK schemes has been decreased from 6.2% to 5.8% and the general inflation assumption has been strengthened from 2.8% to 3.3%. The inflation assumption for pension increases is 3.1% (2008: 2.8%) reflecting the 5% cap on annual pension increases. For mortality we have moved to the SAPS Light Normal table and improvements to longevity are now based on the long cohort. The life expectancy of a male pensioner aged 60 is assumed to be 27.5 years (2008: 25.8 years) and 28.1 years (2008: 27.0 years) for a female pensioner.

We continue to take action to de-risk our pension schemes and last year were the first company in Ireland to move from a final salary to a career average earnings scheme. In February this year, we made further significant changes to the UK defined benefit schemes including, reducing the future rate of pension accrual from 60ths and giving employees the choice of 80ths or 100ths, increasing the level of existing employee contributions, reducing the cap on pensionable earnings to £75,000 and raising the schemes' retirement age from 62 to 65. These changes will reduce the growth of the future liabilities of the schemes and cut the annual cost.

Cashflow – management basis

	12 Months	12 Months
	2009	2008
	£m	£m
Operating cashflow		
Italy	(57)	34
UK reorganisation costs	(55)	-
Property sales	-	109
Underlying cashflow	602	637
Operating cashflow	490	780
Tax paid	(180)	(101)
Interest paid	(96)	(107)
Group dividends	(195)	(181)
Dividend to minorities	(3)	(8)
Net cashflow	16	383
Issue of share capital	11	19
Pension asset reallocation funding	(40)	(37)
Net movement of debt	21	(2)
Corporate activity	(101)	(101)
Cash movement	(93)	262
Represented by:		
Decrease in cash and cash equivalents	(460)	(91)
Purchase of other investments	367	353
	(93)	262

The Group's operating cashflow is £490m. As mentioned at the half year, operating cashflow has been adversely impacted by the move to Direct Indemnification and performance in Italy and reorganisation costs in the UK. As reported last year, 2008 also benefitted from inflows from the sale of Group occupied property, primarily Codanhus in Denmark. Excluding these amounts the underlying cashflow is £602m, down 5% on the prior year. Tax paid of £180m is £79m higher than 2008, primarily due to the lower allocation to the Swedish Security Fund in 2008. Interest paid has reduced from £107m to £96m as the new Sterling notes issued in May only pays interest once a year, starting in May 2010. The pension funding payment of £40m is part of our ongoing pension scheme asset reallocation strategy. Net movement of debt reflects the issue of £500m of subordinated debt in the first half of the year offset by the call of the €500m bond in October 2009. Corporate activity in 2009 of £101m includes acquisitions in Central and Eastern Europe, Canada and Ireland.

Loss development tables

The table below presents the general insurance claims provisions net of reinsurance for the accident years 2001 and prior, through to 2009. 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.

The loss development table is presented on an undiscounted basis. Prior year development in 2009 showed favourable experience across all accident years and regions, and totalled £342m, net of reinsurance. The total discounting at the end of 2009 was £687m representing an increase of £16m in the year. In Scandinavia, certain long tail liabilities are settled by an annuity and the discounted value of these annuities is shown separately. At the year end, the annuity reserves were £444m (2008: £437m).

	2001 and prior £m	2002 £m	2003 £m	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	Total £m
Estimate of cumulative claims										
At end of accident year	7,437	2,630	2,418	2,258	2,419	2,441	2,532	2,582	2,482	
1 year later	7,731	2,577	2,454	2,122	2,297	2,423	2,538	2,576		
2 years later	7,814	2,571	2,367	1,934	2,210	2,328	2,517			
3 years later	8,164	2,547	2,251	1,846	2,135	2,247				
4 years later	8,207	2,456	2,189	1,779	2,054					
5 years later	8,680	2,431	2,130	1,731						
6 years later	8,621	2,399	2,109							
7 years later	8,550	2,364								
8 years later	8,501									
2009 movement	49	35	21	48	81	81	21	6		342
Claims paid										
1 year later	2,358	1,086	883	710	947	983	1,143	1,289		
2 years later	1,190	352	300	261	293	350	366			
3 years later	1,051	262	209	183	168	190				
4 years later	564	171	109	140	141					
5 years later	405	93	91	87						
6 years later	257	73	63							
7 years later	281	52								
8 years later	228									
Cumulative claims paid	6,334	2,089	1,655	1,381	1,549	1,523	1,509	1,289		
Current year provision before discounting	2,167	275	454	350	505	724	1,008	1,287	2,482	9,252
Exchange adjustment to closing rates										110
Discounting										(687)
Annuity reserves										444
Present value recognised in the balance sheet										9,119

Asbestos reserves

The technical provisions include £920m for asbestos in the UK. These provisions can be analysed by survival ratio. Survival ratio is an industry standard measure of a company's reserves, expressing the number of years that carried reserves will be available if the recent year payment or notification levels continue. The following table outlines the asbestos provisions as at 31 December 2009 analysed by risk and survival ratio:

	Total	UK risks written in the UK	US risks written in the UK
Provisions in £m			
Net of reinsurance	920	822	98
Net of discount	469	403	66
Survival ratios (Gross of discount) - On payment			
One year	31	33	24
Three year average	39	40	29
Survival ratios (Gross of discount) - On notifications			
One year	33	37	16
Three year average	37	41	20

REGIONAL ANALYSIS OF INSURANCE OPERATIONS

12 MONTHS TO 31 DECEMBER

	Net written premiums		Increase as reported %	Increase at constant exchange %
	2009 £m	2008 £m		
United Kingdom	2,632	2,711	(3)	(3)
International	3,249	2,998	8	-
Emerging Markets	833	738	13	2
Group Re	23	15	53	53
Total Group	6,737	6,462	4	(1)

	Underwriting result		Investment result		Insurance result	
	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m
United Kingdom	75	99	238	317	313	416
International	282	262	245	237	527	499
Emerging Markets	29	23	45	40	74	63
Group Re	-	-	(5)	-	(5)	-
Total Group	386	384	523	594	909	978

	Operating ratios					
	2009			2008		
	Claims %	Expenses %	Combined %	Claims %	Expenses %	Combined %
United Kingdom	63.7	34.3	98.0	64.3	33.3	97.6
International	68.6	23.1	91.7	68.3	22.9	91.2
Emerging Markets	54.3	40.8	95.1	55.7	40.7	96.4
Total Group	65.0	29.6	94.6	65.1	29.4	94.5

INVESTMENT RESULT BY REGION

12 MONTHS TO 31 DECEMBER 2009

	UK £m	International £m	Emerging Markets £m	Group Re £m	Group £m
Investment income	251	273	43	28	595
Realised gains	30	33	5	1	69
Unrealised gains/(losses), impairments and foreign exchange	(18)	(19)	(3)	(1)	(41)
Unwind of discount including ADC	(25)	(42)	-	(33)	(100)
Investment result	238	245	45	(5)	523

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

UNITED KINGDOM INSURANCE OPERATIONS

12 MONTHS TO 31 DECEMBER

	Net written premiums		Underwriting result		Operating ratio	
	2009	2008	2009	2008	2009	2008
	£m	£m	£m	£m	%	%
Personal						
Household	522	557	42	31	91.9	92.4
Motor	493	469	(15)	7	103.8	98.3
Other	80	70	1	(1)	97.2	98.9
Total UK Personal	1,095	1,096	28	37	97.4	95.0
Commercial						
Property	567	594	8	(38)	99.9	112.7
Casualty	288	315	(14)	19	107.7	97.4
Motor	428	494	2	38	101.1	92.4
Other	254	212	51	43	77.7	80.2
Total UK Commercial	1,537	1,615	47	62	98.5	99.3
Total UK	2,632	2,711	75	99	98.0	97.6

INTERNATIONAL INSURANCE OPERATIONS

12 MONTHS TO 31 DECEMBER

	Net written premiums		Underwriting result		Operating ratio	
	2009	2008	2009	2008	2009	2008
	£m	£m	£m	£m	%	%
Personal						
Scandinavia	944	875	204	146	78.7	83.8
Canada	778	667	34	39	95.3	93.2
Other Europe	341	299	(55)	1	117.1	99.7
Total Personal	2,063	1,841	183	186	91.2	89.8
Commercial						
Scandinavia	725	727	38	44	95.8	93.5
Canada	243	217	29	18	87.5	92.2
Other Europe	218	213	32	14	86.8	94.5
Total Commercial	1,186	1,157	99	76	92.7	93.3
Total						
Scandinavia	1,669	1,602	242	190	86.2	88.3
Canada	1,021	884	63	57	93.5	92.9
Other Europe	559	512	(23)	15	105.0	97.1
Total International	3,249	2,998	282	262	91.7	91.2

ESTIMATION TECHNIQUES, RISKS, UNCERTAINTIES AND CONTINGENCIES

Introduction

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

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

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

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

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

Estimation techniques

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

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

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

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

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

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

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

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

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

Uncertainties and contingencies

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

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

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

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

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

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

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

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

Asbestos and environmental claims

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

Factors contributing to this higher degree of uncertainty include:

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

Acquisitions and disposals

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

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

Contracts with third parties

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

Litigation, disputes and investigations

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

Reinsurance

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

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

Investment risk

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

Credit risk includes the non performance of contractual payment obligations on invested assets and adverse changes in the credit worthiness of invested assets including exposures to issuers or counterparties for bonds, equities, deposits and derivatives. Limits are set at both a portfolio and counterparty level based on likelihood of default to manage the Group's overall credit profile and specific concentrations within risk appetite.

Our insurance investment portfolios are concentrated in listed securities with very low levels of exposure to assets without quoted market prices. We use model based analysis to verify asset values when market values are not readily available.

Rating environment

The ability of the Group to write certain types of insurance business is dependent on the maintenance of the appropriate credit ratings from the rating agencies. The Group has the objective of maintaining single 'A' ratings. At the present time the ratings are 'A' (stable outlook) from S&P, 'A' (stable outlook) from AM Best upgraded in February 2009 and 'A2' (stable outlook) from Moody's upgraded from 'A3' in December 2008. Any worsening in the ratings could have an adverse impact on the ability of the Group to write certain types of general insurance business.

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

Changes in foreign exchange rates may impact our results

We publish our consolidated financial statements in Pounds Sterling. Therefore, fluctuations in exchange rates used to translate other currencies, particularly other European currencies and the US Dollar, into Pounds Sterling will impact our reported consolidated financial condition, results of operations and cash flows from period to period. These fluctuations in exchange rates will also impact the Pound Sterling value of our investments and the return on our investments.

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

Regulatory environment

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

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

Condensed Consolidated Financial Statements

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CONDENSED CONSOLIDATED INCOME STATEMENT

STATUTORY BASIS

	12 Months 2009 (audited) £m	12 Months 2008 (audited) £m
Continuing operations		
Income		
Gross written premiums	7,744	7,273
Less: reinsurance premiums	(1,007)	(811)
Net written premiums	6,737	6,462
Change in the gross provision for unearned premiums	(34)	(112)
Less: change in provision for unearned premiums, reinsurers' share	50	8
Change in provision for unearned premiums	16	(104)
Net earned premiums	6,753	6,358
Net investment return	616	681
Other operating income	89	104
Total income	7,458	7,143
Expenses		
Gross claims incurred	(4,999)	(4,205)
Less: claims recoveries from reinsurers	612	63
Net claims and benefits	(4,387)	(4,142)
Underwriting and policy acquisition costs	(2,066)	(1,925)
Unwind of discount including ADC	(100)	(92)
Other operating expenses	(210)	(117)
Total expenses	(6,763)	(6,276)
Results of operating activities	695	867
Finance costs	(116)	(108)
(Loss)/profit on disposals	(7)	18
Net share of loss after tax of associates	(18)	(18)
Profit before tax	554	759
Income tax expense	(135)	(173)
Profit for the year	419	586
Attributable to:		
Equity holders of the Company	418	574
Minority interests	1	12
Profit for the year	419	586
Earnings per share on profit attributable to the ordinary shareholders of the Company:		
Basic	12.2p	17.3p
Diluted	12.1p	17.0p

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

STATUTORY BASIS

	12 Months 2009 (audited) £m	12 Months 2008 (audited) £m
Profit for the year	419	586
Exchange (losses)/gains	(108)	326
Fair value gains/(losses) net of tax	184	(193)
Pension fund actuarial (losses)/gains net of tax	(691)	204
Other comprehensive (expenses)/income for the year, net of tax	(615)	337
Total comprehensive (expense)/income for the year	(196)	923
Attributable to:		
Equity holders of the Company	(193)	901
Minority interests	(3)	22
	(196)	923

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

STATUTORY BASIS

	Shareholders' funds £m	Minority interest £m	Total equity and reserves £m
Balance at 1 January 2008	3,077	67	3,144
Total comprehensive income for the year	901	22	923
Share issue	84	-	84
Changes in shareholders' interests in subsidiaries	(2)	-	(2)
Share based payments	25	-	25
Prior year final dividend	(147)	(8)	(155)
Current year interim dividend	(90)	-	(90)
Preference dividend	(9)	-	(9)
Balance at 31 December 2008	3,839	81	3,920
Total comprehensive expense for the year	(193)	(3)	(196)
Share issue	89	-	89
Changes in shareholders' interests in subsidiaries	-	22	22
Share based payments	29	-	29
Prior year final dividend	(165)	(3)	(168)
Current year interim dividend	(99)	-	(99)
Preference dividend	(9)	-	(9)
Balance at 31 December 2009	3,491	97	3,588

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

STATUTORY BASIS

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

These condensed consolidated financial statements have been approved for issue by the Board of Directors on 24 February 2010.

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

* Assets and liabilities held for sale in 2009 relate to the British Engine legacy business, pending completion of the disposal announced on 30 September 2009, and properties in the UK and Scandinavia.

CONDENSED CONSOLIDATED STATEMENT OF CASHFLOWS

STATUTORY BASIS

	12 Months 2009 (audited) £m	12 Months 2008 (audited) £m
Cashflows from operations	(1)	137
Tax paid	(180)	(101)
Investment income	617	632
Interest paid	(96)	(107)
Dividends received from associates	1	3
Pension asset reallocation funding	(40)	(37)
Net cashflows from operating activities	301	527
Proceeds from sales or maturities of:		
Investment contracts	4,031	5,184
Investment property	-	3
Property and equipment	7	20
Investments in subsidiaries (net of cash disposed of)	-	78
Purchase or settlement of:		
Investment contracts	(4,388)	(5,528)
Investment property	(10)	(10)
Property and equipment	(37)	(64)
Intangible assets	(98)	(72)
Investments in subsidiaries (net of cash acquired)	(100)	(25)
Investments in associates	-	(32)
Net cashflows from investing activities	(595)	(446)
Proceeds from issue of share capital	11	19
Dividends paid to ordinary shareholders	(186)	(172)
Dividends paid to preference shareholders	(9)	(9)
Dividends paid to minority interests	(3)	(8)
Net movement in long term borrowings	27	-
Net movement in other borrowings	(6)	(2)
Net cashflows from financing activities	(166)	(172)
Net decrease in cash and cash equivalents	(460)	(91)
Cash and cash equivalents at beginning of the year	1,614	1,538
Effect of exchange rate changes on cash and cash equivalents	(49)	167
Cash and cash equivalents at end of the year	1,105	1,614

A reconciliation of cash and cash equivalents at the end of the period to the condensed consolidated statement of financial position is included in note 7.

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

EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Changes in significant accounting policies

The annual financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and under the historical cost convention as modified by the revaluation of available for sale assets, investment property, Group occupied property and financial assets and financial liabilities held for trading (which include all derivative contracts). The condensed financial statements in this report have been prepared according to the same recognition and measurement criteria.

During the period, the Group has adopted a revised version of IAS 1 (2007) 'Presentation of Financial Statements'. This is mandatory for accounting periods beginning on or after 1 January 2009. The revised standard changes certain aspects of the presentation of financial statements. The effect of this is to introduce a new primary statement, the "Statement of changes in equity", which was previously a note to the accounts and to rename the primary statements. There have been no other significant changes in accounting policy and methods of computation in the 12 months to 31 December 2009. A full list of accounting policies applied in these condensed financial statements can be found in the 2009 Annual Report and Accounts (see note 10).

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

2. Operating segments

12 months ended 31 December 2009

	UK	International	Emerging Markets	Group Re	Group
	£m	£m	£m	£m	£m
Net written premiums	2,632	3,249	833	23	6,737
Underwriting result	75	282	29	-	386
Investment result	238	245	45	(5)	523
Insurance result	313	527	74	(5)	909
Other activities	1	(11)	(50)	(72)	(132)
Operating result (management basis)	314	516	24	(77)	777
Amortisation					(25)
Reorganisation costs					(75)
Less net share of loss after tax of associates					18
Results of operating activities (per condensed consolidated income statement)					695
Combined operating ratio (%)	98.0	91.7	95.1	-	94.6
Segment assets (£m)	7,627	10,326	2,476	1,380	21,809

12 months ended 31 December 2008

	UK	International	Emerging Markets	Group Re	Group
	£m	£m	£m	£m	£m
Net written premiums	2,711	2,998	738	15	6,462
Underwriting result	99	262	23	-	384
Investment result	317	237	40	-	594
Insurance result	416	499	63	-	978
Other activities	1	(6)	(29)	(77)	(111)
Operating result (management basis)	417	493	34	(77)	867
Amortisation					(18)
Less net share of loss after tax of associates					18
Results of operating activities (per condensed consolidated income statement)					867
Combined operating ratio (%)	97.6	91.2	96.4	-	94.5
Segment assets (£m)	8,903	11,003	1,938	897	22,741

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

The information above (including the 2008 comparative data) has been prepared on the same basis as reported in the 2009 Annual Report and Accounts. The segment assets exclude investment in associates and assets and liabilities held for sale.

3. Earnings per share

The earnings per share is calculated by reference to the result attributable to the equity shareholders and the weighted average number of shares in issue during the period. On a basic and diluted basis this was 3,349,320,800 and 3,383,210,411, respectively (excluding those held in ESOP trusts). The number of shares in issue at 31 December 2009 was 3,412,572,235 (excluding those held in ESOP trusts).

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

During 2009, changes to claims reserve estimates made in prior years as a result of reserve development is included in the prior year profit of £286m (2008: £291m).

The Group pension fund deficit net of tax as at 31 December 2009 is £262m (31 December 2008: surplus of £363m). Further information on the pension fund deficit is included on page 15.

5. Business combination and other changes in the structure of the Group

On 8 April 2009 the Group acquired 100% of the share capital of Benchmark Underwriting Limited in Ireland. On 15 June 2009, the Group acquired the remaining 50% of the share capital of Intouch Insurance Group BV (Intouch). On 1 July 2009 the Group acquired 100% of Atrens Counsel Insurers Brokers Incorporated and a number of other smaller acquisitions in Canada during the period. The total consideration was £104m and goodwill of £154m arose on acquisitions.

	£m
Investments	42
Intangible assets (excluding goodwill)	45
Cash and cash equivalents	4
Other assets	45
Insurance contract liabilities	(74)
Other liabilities	(43)
Net assets	19
Cash consideration including acquisition costs	104
Goodwill on acquisitions	85
Goodwill arising from purchases in earlier years	69
Goodwill on acquisitions	154

The goodwill arising from purchases in earlier years includes the goodwill arising on the acquisition of the original 50% shareholding of Intouch in 2007.

Fair value adjustments to the carrying value of the net assets of the subsidiaries acquired immediately before the combinations resulted in the recognition of £33m of intangible assets. The intangible assets recognised as a result of the combinations consist of a brand and customer lists.

If the acquisitions had occurred on 1 January 2009, Group net written premiums for the year would have increased by £38m and the Group's profit after tax would have decreased by £13m. The total loss after tax of the acquired entities since the acquisition dates included in the Group's profit for the period is £9m.

Goodwill is individually assessed on each acquisition. The goodwill on the acquisition of Intouch arose from the premium paid for acquiring market leading businesses in direct insurance in Poland, Russia and the Czech Republic, their future growth opportunities, and for acquiring the skilled workforce to drive future profitability in these markets. The goodwill in Canada and Ireland arose from the premium paid for strengthening the Group's market position in targeted business segments and acquiring the skilled workforce to drive future profitability in those segments. Goodwill also represents the future cost savings from expected synergies and economies of scale.

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

During 2009, 28,969,400 (2008: 24,707,235) ordinary shares were issued on the exercise of employee share options. The Company also issued 61,767,996 (2008: 51,770,891) ordinary shares under the scrip scheme approved by the shareholders at the 2009 Annual General Meeting.

New subordinated guaranteed Sterling bonds were issued on 20 May 2009. The bonds have a nominal value of £500m and bear interest at a fixed rate of 9.375% until 20 May 2039. The Group has the option to repay the bonds on specific dates after 20 May 2019.

The subordinated guaranteed Euro bonds (€500m) were repaid on 15 October 2009. The interest rate on €200m of the Euro bonds was at a fixed rate of 6.875%. The interest rate on €300m of the Euro bonds was at a floating rate from the date of issue of EURIBOR plus 1.25%.

7. Cashflow

	12 Months 2009	12 Months 2008
	£m	£m
Cash and cash equivalents (as reported within the condensed statement of cashflows)	1,105	1,614
Less: cash and cash equivalents reported in assets held for sale	(109)	-
Total cash and cash equivalents	996	1,614

8. Dividends

	31 December 2009		31 December 2008	
	Per share p	Total £m	Per share p	Total £m
Ordinary dividend				
Final paid in respect of prior year	4.98	165	4.53	147
Interim paid in respect of current year	2.92	99	2.73	90
	7.90	264	7.26	237
Preference dividend		9		9
		273		246

9. Exchange rates

Local currency/£	12 Months 2009		12 Months 2008	
	Average	Closing	Average	Closing
Canadian Dollar	1.78	1.69	1.96	1.77
Danish Krone	8.36	8.37	9.39	7.70
Swedish Krona	11.93	11.53	12.09	11.35
Euro	1.12	1.13	1.26	1.03

10. Results for 2009

The financial information set out in the announcement does not constitute the company's statutory accounts for the year ended 31 December 2009. The financial information is derived from the statutory accounts for that year which will be delivered to the Registrar of Companies following the Annual General Meeting to be held on 17 May 2010. The independent auditors' report on the Group accounts for the year ended 31 December 2009 is unqualified, does not draw attention to any matters by way of emphasis and does not include a statement under section 498(2) or (3) of the Companies Act 2006.

RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

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

Signed on behalf of the Board

Andy Haste
Chief Executive Officer

24 February 2010

George Culmer
Chief Financial Officer

24 February 2010

SHAREHOLDER INFORMATION

Registered office and Group Corporate Centre

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

Company website

The Annual Report and Accounts, Interim Management Statements, Half Yearly Report and other useful information about the Company, such as the current share price, is available on our website www.rsagroup.com. Frequently asked questions and answers in respect of shareholding matters are also detailed on the Company's website.

Registrar

The Company's share register is maintained by Equiniti.

Queries regarding your shareholding should be addressed to Equiniti at the following address: Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA. Telephone: +44 (0) 871 384 2048. Overseas callers should use +44 (0) 121 415 7064. Shareholders with a text phone facility should use +44 (0) 871 384 2255.

Please quote your shareholder account number (on your share certificate and dividend tax vouchers) when contacting or corresponding with Equiniti. (Calls are charged at 8p per minute from a BT landline. Other telephone provider costs may vary.)

Electronic Communications

Following the adoption of electronic communication provisions into the Company's Articles of Association in May 2008, RSA now provides the majority of information to shareholders via the Company's website. Receiving the Company's communications electronically allows the Company to communicate with its shareholders in a more environmentally friendly, cost effective and timely manner. Shareholders are encouraged to elect to receive notification of shareholder communications electronically by signing up for paper-free communications at Shareview (www.shareview.co.uk).

Scrip dividend scheme

The Company operates a Scrip Dividend Scheme whereby ordinary shareholders can receive dividends in the form of shares. The Scheme enables shareholders to increase their holding in the Company without incurring dealing costs or stamp duty. The price of the shares for the 2009 final dividend is fixed by reference to the average of the Company's middle market closing price for the five consecutive dealing days commencing on the ex dividend date of 3 March 2010. If you wish to participate in the Scheme please contact Equiniti. Mandate forms with respect to the 2009 final dividend should be returned to Equiniti to arrive no later than 6 May 2010.

FINANCIAL CALENDAR

3 March 2010

Ex dividend date for the ordinary final dividend for 2009 and the first preference dividend for 2010

5 March 2010

Record date for the ordinary final dividend for 2009 and the first preference dividend for 2010

11 March 2010

Announcement of the scrip dividend price for the ordinary final dividend for 2009

1 April 2010

Payment date for the first preference dividend for 2010

6 May 2010

Deadline for the receipt of scrip dividend mandates by Equiniti in relation to ordinary final dividend 2009

6 May 2010

Announcement of Q1 interim management statement

17 May 2010

2010 Annual General Meeting

4 June 2010

Payment of the ordinary final dividend for 2009