

26 February 2009

**YEAR END RESULTS 2008****Strong Group performance**

- Net written premiums of £6.5bn, up 11%
- Combined operating ratio of 94.5%
- Operating result of £867m, up 7%
- Profit before tax of £759m, up 13%
- Shareholders' funds of £3.8bn, up 25%
- IGD surplus up 13% to £1.7bn, representing coverage of 2.5x

**Delivery against strategic objectives**

- Strong results in challenging trading and economic conditions
- Continuing to take the right action on rate and expenses
- New UK expense savings target of £70m to be delivered by mid 2010, at a cost of £80m
- Maintaining tight financial management
- Strong balance sheet and capital position

**Outlook**

- Final dividend increased 10% to 4.98p, giving a full year dividend increase of 10%
- Combined operating ratio for 2009 expected to be around 95%

	<b>12 Months 2008</b>	12 Months 2007	Movement*
Net written premiums	<b>£6,462m</b>	£5,837m	+11%
Underwriting result	<b>£384m</b>	£278m	+38%
Combined operating ratio	<b>94.5%</b>	94.9%	0.4pts
Operating result <sup>(1)</sup>	<b>£867m</b>	£814m	+7%
Profit before tax <sup>(1)</sup>	<b>£759m</b>	£670m	+13%
Profit after tax <sup>(1)</sup>	<b>£586m</b>	£628m**	-7%
	<b>31 December 2008</b>	31 December 2007	
<b>Balance sheet</b>			
Shareholders' funds	<b>£3,839m</b>	£3,077m	+25%
Net asset value per share	<b>112p</b>	91p	+23%
Net asset value per share excluding IAS19	<b>101p</b>	88p	+15%
Dividend for the year per ordinary share	<b>7.71p</b>	7.01p	+10%

\* Reported exchange rate

\*\* Includes the release of £103m of deferred tax provisions in Codan

**Andy Haste, Group CEO of RSA, commented:**

"In a year of challenging trading conditions and volatile investment markets, we have once again delivered strong results and have strengthened the Group's net asset and regulatory capital position. These results continue to demonstrate the positive impact of our tight operational and financial management and the benefit of the Group's strong and diversified portfolio.

We expect to continue to face challenging conditions going forward. However, with our ongoing actions and the strength of our portfolio and balance sheet, we remain confident of continuing to deliver sustainable profitable performance and we are well positioned to take advantage of market opportunities. As it stands today, we expect to achieve a combined operating ratio for 2009 of around 95%. Given the strong performance in 2008, and our positive outlook for the Group, we have increased the final dividend by 10% to 4.98p (2007: 4.53p)."

**For further information:**

**Analysts**

Shona Cotterill  
Tel: +44 (0) 20 7111 7212  
Mobile: +44 (0) 7894 938600

Claire Cordell  
Tel: +44 (0) 20 7111 7138  
Mobile: +44 (0) 7834 944204

Suzannah Seddon  
Tel: +44 (0) 20 7111 7140  
Mobile: +44 (0) 7779 298477

**Press**

Thomas Coops  
Tel: +44 (0) 20 7111 7047  
Mobile: +44 (0) 7834 005605

Simon Kutner  
Tel: +44 (0) 20 7111 7327  
Mobile: +44 (0) 7795 445656

Faeth Birch (Finsbury)  
Tel: +44 (0) 20 7251 3801  
Mobile: +44 (0) 7810 505473

<b>CONTENTS</b>	<b>PAGE</b>
<b>Management report</b>	<b>3</b>
CEO review	3
Operations review	5
Summary consolidated income statement – management basis	10
Summary consolidated balance sheet – management basis	11
Other information – management basis	12
Regional analysis of insurance operations	15
Estimation techniques, risks, uncertainties and contingencies	17
<b>Condensed financial statements</b>	<b>21</b>
<b>Responsibility statement</b>	<b>29</b>

**Important disclaimer**

Visit [www.rsagroup.com](http://www.rsagroup.com) for more information.

This press release (together with the Annual Report and Accounts referred to herein) has been prepared in accordance with the requirements of English Company Law and the liabilities of the directors in connection with this press release (together with the Annual Report and Accounts referred to herein) shall be subject to the limitations and restrictions provided by such law. This document may contain “forward-looking statements” (as defined in the US Private Securities Litigation Reform Act of 1995) with respect to certain of the Company’s plans and its current goals and expectations relating to its future financial condition, performance and results. By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances which are beyond the Company’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, the impact of competition, inflation, deflation, the timing impact and other uncertainties of future acquisitions or combinations within the relevant industries, as well as the impact of tax and other legislation and other regulations in the jurisdictions in which the Company and its affiliates operate. As a result, the Company’s actual future financial condition, performance and results may differ materially from the plans, goals and expectations set forth in the Company’s forward-looking statements. The Company 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.

<sup>(1)</sup> For a reconciliation of operating result to profit after tax see page 10.

## MANAGEMENT REPORT

### CEO REVIEW

The Group has delivered strong results in challenging trading, investment and economic conditions. Net written premiums are up 11% to £6.5bn (4% on constant exchange), with good underlying growth and the benefits of foreign exchange in International and Emerging Markets, and a disciplined approach in the UK. The underwriting result is up by 38% to £384m, reflecting the impact of management actions, while improved weather was partially offset by higher large losses. As expected, International contributed the majority of the Group's underwriting result, with continued profitable performance in the UK and Emerging Markets. The combined operating ratio (COR) improved 0.4 points to 94.5% (2007: 94.9%).

The investment result is £594m (2007: £629m) and includes an 11% increase in investment income to £654m, offset by a lower level of total gains (£32m compared with £119m in 2007). The operating result is up 7% to £867m and profit before tax has increased by 13% to £759m. The 2008 tax charge is £173m compared with £29m in 2007, which included the release of £103m of deferred tax provisions in respect of the Scandinavian security funds. Profit after tax is £586m (2007: £628m) and the underlying ROE is strong at 18.5%, compared with 21.3% in 2007, reflecting higher opening net assets.

Shareholders' funds have increased by 25% to £3.8bn, primarily reflecting after tax profits, foreign exchange, and the increase in the pension fund surplus. The capital position also remains strong, with the IGD surplus increasing by 13% to £1.7bn, representing coverage of 2.5 times the requirement.

### 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	12 Months	Movement	Movement at	12 Months	12 Months	Movement
	2008	2007	as reported	constant	2008	2007	
	£m	£m	%	exchange	%	%	Points
International	2,998	2,513	19	6	91.2	91.3	0.1
UK	2,711	2,688	1	1	97.6	97.6	-
Emerging Markets	738	615	20	7	96.4	95.3	(1.1)
Group Re	15	21	(29)	(29)	-	-	-
<b>Total Group</b>	<b>6,462</b>	<b>5,837</b>	<b>11</b>	<b>4</b>	<b>94.5</b>	<b>94.9</b>	<b>0.4</b>

In International, net written premiums are up 19% to £3.0bn (6% on constant exchange), driven by organic growth, the impact of acquisitions and foreign exchange. In Scandinavia, premiums are up by 16% to £1.6bn (3% on constant exchange), with good growth in Commercial, particularly in Denmark and Norway. In Canada, premiums have increased by 26% to around £0.9bn (15% on constant exchange), reflecting good organic growth and the strong performance of CNS, which we acquired in December 2007. Johnson continues to perform strongly, increasing premiums by 24% (14% on constant exchange). In Other Europe, premiums are up by 19% to £0.5bn (2% on constant exchange) with continued above market growth in Italy offset by a disciplined approach in Ireland where we are continuing to take action on rate and capacity.

In the UK, we are maintaining our strategy of targeting profitable growth, taking the right action on rate and selective capacity withdrawal. Total premiums are up 1% to £2.7bn. In Personal, premiums are up by 2% at £1.1bn, reflecting a good performance from MORE TH>N, with 2% premium growth, while, as expected, Affinity volumes continue to be impacted by lower new car sales and mortgage originations. In Commercial, premiums are in line with last year at £1.6bn, with strong growth in specialty lines offsetting the withdrawal of capacity in lines of business where we cannot achieve our target returns. We have continued to take action on rate, increasing Personal Motor rates by 6% and Household by 5%, and achieving increases in Commercial of 6% in Liability, 7% in Property and 8% in Motor. Overall retention remains strong at around 80%.

In Emerging Markets, premiums are up by 20% to over £0.7bn (7% on constant exchange) and increased by 26% (12% on constant exchange) after excluding Venezuela, which we sold in December 2007. As noted in our interim results, we are seeing the impact of economic downturn and in response, we have taken a number of actions to protect profitability, including reducing headcount by around 400 (around 10% of the total workforce) across the region. In the Baltics, premiums are up by 21% (4% on constant exchange) and while growth has slowed as a result of economic conditions, we have taken a number of actions to protect profitability. In Asia and the Middle East, premiums are up by 43% (30% on constant exchange) with strong growth in UAE Motor and Construction and Engineering. In Latin America, premiums are up 22% (10% on constant exchange), after adjusting for the sale of Venezuela, reflecting double digit growth across Chile, Brazil, Argentina and Colombia. Across Emerging Markets, we are successfully implementing our Affinity strategy, signing 47 new deals in 2008.

Our associates in India and Intouch in Central and Eastern Europe continue to build momentum and premiums are up by 37% to £140m (25% on constant exchange). Intouch has market leading direct operations in Poland, the Czech Republic and Russia and in February 2009, we signed an agreement to acquire the remaining 50% of the business.

The Emerging Markets region remains attractive with good long term potential, and we are on track to meet our target of increasing net written premiums to £1bn by the end of 2010.

Across the Group, our objective is to continue delivering sustainable profitable performance and each of our regions has again delivered a strong underwriting result. International delivered a 27% increase in underwriting profit to £262m and a COR of 91.2%, primarily reflecting a strong performance in Scandinavia, where underwriting profits were up 64% to £190m. In the UK, we have maintained good profitability, with an underwriting profit of £99m and a COR of 97.6%. Emerging Markets has delivered an underwriting result of £23m and a COR of 96.4%.

We remain focused on improving operational efficiency and reducing costs. In the year, we achieved our 2008 expense savings target of £200m, and in Scandinavia we are on track to deliver the additional £25m of expense savings announced at our Investor Day in May. In addition, today we have announced a new £70m expense savings target for the UK to be delivered by mid 2010, primarily through a reduction in headcount of 1,200. There will be a one off cost in 2009 of £80m to deliver this, which will be treated as a reorganisation cost and will not be included in the Operating Result (as reported on the management basis). With these and other actions, we are targeting an expense ratio of around 14% by the end of 2012.

### **Outlook**

We have again delivered strong results in challenging conditions. With our strong balance sheet, our management actions and diversified portfolio, we are delivering sustainable profitable performance.

In 2009, we will continue to operate a high quality, low risk investment strategy. The investment result will be impacted by lower interest rates and continued investment market volatility, however, we will continue to take action to mitigate this impact. These actions and the geographic diversification of the portfolio will limit the full impact of falling yields, and in 2009 we expect investment income to be around 2007 levels. Total gains will continue to be impacted by any further negative market movements in commercial property values as well as financial market volatility, and we are not anticipating a positive contribution from total gains in 2009.

We will maintain our focus on underwriting discipline and targeted profitable growth. We are seeing signs of economic downturn across the Group, however, we are also seeing rates beginning to harden in a number of our key markets and we continue to take action on rate and expenses. As it stands today, we expect to deliver a combined operating ratio of around 95% in 2009.

We remain confident about the outlook for the Group and we are well positioned to take advantage of market opportunities. Given the strong performance in 2008 and as a reflection of the Board's confidence in the future performance of the Group, we are increasing the final dividend by 10% to 4.98p (2007: 4.53p).

**Andy Haste, Group CEO, RSA**

## OPERATIONS REVIEW

### Operating Result

The operating result is up 7% to £867m (2007: £814m) and reflects an improved underwriting result, partially offset by a lower investment result due to the expected reduced level of total gains. The underwriting result of £384m (2007: £278m) represents another strong performance, with a current year underwriting profit of £93m (2007: underwriting loss £70m) and a prior year profit of £291m (2007: £348m). The improvement in the current year result reflects the continued benefits of management actions, while improved weather (£155m better than 2007) was offset by adverse large loss experience (£110m worse than 2007), primarily in the UK. The strong prior year result reflects continued positive run off from all three regions.

The Group continues to adopt a prudent reserving policy for both current year and overall reserves. At 31 December 2008, reserves remain significantly to the right side of best estimate.

#### - International

International continues to drive the Group forward and has again delivered a strong top and bottom line performance. Net written premiums are up 19% to £3.0bn (6% on constant exchange). This reflects 26% growth in Canada (15% on constant exchange), 16% growth in Scandinavia (3% on constant exchange) and 19% growth in Other Europe (2% on constant exchange). As expected, International contributed the majority of the Group's underwriting result, with a 27% increase in underwriting profit to £262m.

In Scandinavia, Commercial performed strongly, delivering a 19% increase in net written premiums to £727m (5% on constant exchange). This reflects good growth in Norway, and in SME, Marine and Renewable Energy in Denmark. In Personal lines, premiums are up 14% to £875m (1% on constant exchange) reflecting continued growth from WLI in Norway and good retention across the region.

In Canada, Commercial net written premiums increased by 19% to £217m (9% on constant exchange) reflecting the CNS acquisition in December 2007 and continued strong retention. The integration of CNS is on track and the business is performing well with 80% of business retained. Personal net written premiums increased by 28% to £667m (18% on constant exchange). Growth in Personal Intermediated reflects positive rate, strong retention and CNS. Johnson, our direct personal business, continued to perform strongly, delivering 24% growth (14% on constant exchange), reflecting the acquisition of TJV in 2007 and the signing of 35 new sponsorship groups.

In Other Europe, premiums are up by 19% to £512m (2% on constant exchange). In Italy, we continue to grow ahead of the market with premiums up 3% on constant exchange reflecting growth in Personal Motor and increased distribution, with 37 new agents signed this year. In Ireland, the market remains competitive and we are continuing to act on rate. Premiums are in line with last year, with growth in our Affinity business and recent acquisitions, offsetting the withdrawal of capacity in areas such as Fleet and Solicitors' PI. We also completed the domestication of our Irish business, establishing it as a separate legal entity. This company started writing Group business in 2009, taking advantage of Ireland's lower tax regime.

The International COR was 91.2% (2007: 91.3%). The Scandinavian COR improved by 3.1 points to 88.3% driven primarily by a strong performance in Sweden, particularly in Personal lines. In Canada, profitability remains strong with a COR of 92.9% (2007: 92.4%), despite adverse weather, with some of the worst winter storms in Ontario for almost 70 years. The COR for Other Europe was 97.1% (2007: 89.1%) reflecting the impact of the floods in Ireland as well as the exceptional level of prior year development in 2007.

The result has been underpinned by our continued focus on operational excellence. In May 2008, we announced a further £25m expense savings target for Scandinavia, to be achieved by mid 2010, and we are on track to deliver this.

#### - UK

The UK market remains competitive and we are maintaining our strategy of targeting profitable growth, taking the right action on rate and selective capacity withdrawal. Premiums are up by 1% to £2.7bn, with a COR of 97.6% (2007: 97.6%).

In Personal, premiums are up 2% to £1.1bn. MORE TH>N continues to perform well, with premium growth of 2%, and new business sales up by 10%, while lower mortgage originations and new car sales continue to impact Affinity volumes. In Commercial, overall premiums are in line with last year at £1.6bn, with strong growth in specialty lines, including Risk Solutions which is up 9%, Marine up 13%, and targeted growth in Commercial Fleet offsetting the withdrawal of capacity in lines of business such as Liability and small and mid corporate Property, where we cannot achieve our target returns.

Overall retention remains strong at around 80%. We have continued to take action on rate, increasing Personal Motor rates by 6% and Household by 5%, and Commercial rates by 6% in Liability, 7% in Property and 8% in Motor. Across the market we are starting to see more consistent rating action from major competitors.

The underwriting result is £99m (2007: £65m), with the expected lower level of prior year development and increased large losses partially offsetting the benefits of improved weather. In Commercial lines, adverse large loss experience and

lower prior year development have reduced the Property and Casualty underwriting results, however, this has been offset by good profitability in Marine and in our Legacy operations, which are included in Other.

The UK expense ratio including commissions is 33.3%, compared with 34.5% in 2007, with a 0.2 point decrease in the commission ratio (due to lower Affinity sales offset by a one off profit commission payment in 2008) and a 1 point improvement in the expense ratio. Today we have announced a further £70m expense savings target for the UK, to be delivered by mid 2010. There will be a one off cost of £80m to deliver this, which will be incurred in 2009 and treated as a reorganisation cost and will not be included in the Operating Result. With these and other actions, we are targeting an expense ratio of around 14% by the end of 2012.

### - Emerging Markets

In Emerging Markets, premiums are up by 20% to over £0.7bn (7% on constant exchange) and up by 26% (12% on constant exchange) after excluding Venezuela, which we sold in December 2007. The underwriting result increased by 28% to £23m and the COR was 96.4% (2007: 95.3%). As noted in our interim results, we are seeing the impact of the economic downturn across a number of our markets. We have taken action on expenses to protect profitability, including reducing headcount by around 400 (around 10% of the total workforce) across the region.

In the Baltics, premiums are up by 21% (4% on constant exchange) and while growth has slowed as a result of economic conditions, we have taken action to protect profitability. In Asia and the Middle East, premiums are up by 43% (30% on constant exchange) with strong growth in UAE Motor and Construction and Engineering. In Latin America, premiums are up 22% (10% on constant exchange), after adjusting for the sale of Venezuela, reflecting double digit growth across Chile, Brazil, Argentina and Colombia.

Our associates in India and Intouch in Central and Eastern Europe continue to build momentum and premiums are up by 37% to £140m (25% increase on constant exchange). In India, our business performed strongly, delivering above market growth and increasing the agent network by around 2,700. Intouch has market leading direct operations in Poland, the Czech Republic and Russia and in February 2009, we signed an agreement to acquire the remaining 50% of the business.

The Emerging Markets' expense ratio including commission has increased by 3.4 points to 40.7% (2007: 37.3%) reflecting action taken to reduce headcount, higher commission as a result of increased levels of Affinity business, and a one off receipt of a profit commission in 2007.

These markets remain attractive with good long term potential, and we are on track to meet our target of increasing Emerging Markets' net written premiums to £1bn by the end of 2010.

### - Rating movements

Rate movements achieved for risks renewing in December 2008 versus comparable risks renewing in December 2007 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	6	5	8	6	7
Scandinavia	1	4	2	5	3
Canada	4	7	2	(1)	-

### - Other activities

The analysis of the other activities result is as follows:

	12 Months 2008 £m	12 Months 2007 £m	Movement
Central expenses	(61)	(60)	-2%
Investment expenses and charges	(26)	(21)	-24%
Other operating activities	(24)	(12)	-100%
<b>Other activities</b>	<b>(111)</b>	<b>(93)</b>	<b>-19%</b>

Expenses from other activities for 2008 have increased by £18m to £111m. Other operating activities of £24m include business development expenses for the Emerging Markets' region, as well as investment in our associates in India and Central and Eastern Europe of £19m (2007: £4m).

## - Investment result

The analysis of the investment results is as follows:

	<b>12 Months 2008 £m</b>	12 Months 2007 £m	Movement
Bonds	<b>478</b>	391	+22%
Equities	<b>50</b>	48	+4%
Cash and cash equivalents	<b>57</b>	83	-31%
Land and buildings	<b>16</b>	17	-6%
Other	<b>53</b>	52	+2%
<b>Investment income</b>	<b>654</b>	591	+11%
Realised gains	<b>150</b>	174	-14%
Unrealised gains/(losses), impairments and foreign exchange	<b>(118)</b>	(55)	-115%
Total gains	<b>32</b>	119	-73%
Unwind of discount including ADC	<b>(92)</b>	(81)	-14%
<b>Investment result</b>	<b>594</b>	629	-6%

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 £594m (2007: £629m), and reflects increased investment income offset by the expected decrease in total gains from £119m in 2007 to £32m.

Investment income is up 11% to £654m, reflecting action taken to lock in higher bond yields as well as foreign exchange gains of £40m. The average underlying yield on the portfolio (excluding the yield on the ADC funds withheld account) was 4.6% (2007: 4.4%).

Total gains were £32m (2007: £119m) and comprise gains on the equity hedges of £141m, on equity and bond sales of £68m, offset by mark to market movements on commercial property of £98m, on CDO's of £12m and on other assets of £10m. Impairments totalled £61m and include £43m on equities and £18m on bonds.

In 2008, we took a number of actions to enhance yield on the bond portfolio, including selling low yielding government bonds and reinvesting at longer duration to take advantage of higher yields. In addition, we purchased a net £600m of high quality, well diversified non government securities. The net purchases of non government bonds were at an average credit rating of AA-, well diversified by sector and were spread over more than 100 names. These actions are consistent with our high quality, low risk investment strategy, and we have maintained the overall high credit quality of the portfolio. In 2009, we will continue to be a cautious purchaser of high quality non government credit and selectively extend duration.

In addition, the portfolio benefits from being well diversified geographically, with over 70% of the bond portfolio invested in currencies other than Sterling. While most of these markets are also seeing interest rate reductions, this has been offset by foreign exchange gains.

Going forward, investment income will be impacted by lower interest rates, however, with the actions we are taking to lock in higher yields and the geographic diversification of the portfolio we expect to limit this, and in 2009, we expect investment income to be around 2007 levels.

Total gains will continue to be impacted by any further negative market movements in commercial property values as well as financial market volatility. If the FTSE 100 remains at around 4,000 throughout 2009, the value of the equity hedges is estimated to be approximately £40m, while total impairments are estimated to be between £40m and £60m. The value of commercial property is expected to broadly track the IPD index, and as it stands today, we are not anticipating a positive contribution from total gains in 2009.

The table below sets out the key movements in the investment portfolio over 2008:

	Value 31/12/2007 £m	Foreign Exchange £m	Mark to Market £m	Other Movements £m	Value 31/12/08 £m
Government Bonds	5,333	743	261	(326)	6,011
Non Government Bonds	4,248	604	43	736	5,631
Cash	1,509	167	-	(62)	1,614
Equities	1,132	32	(363)	(21)	780
Property	429	27	(98)	7	365
Prefs & CIVs	355	21	(78)	(138)	160
Other	272	17	2	(125)	166
<b>Total</b>	<b>13,278</b>	<b>1,611</b>	<b>(233)</b>	<b>71</b>	<b>14,727</b>

The investment portfolio increased by 11% to £14,727m over the year, with foreign exchange gains of £1,611m and other positive movements of £71m offset by mark to market movements of £233m. The foreign exchange benefit reflects the appreciation of the Canadian Dollar, the Euro, the Danish Krone and the Swedish Krona against Sterling. The mark to market movement on the bond portfolio is a positive £304m, and the movement on equities a negative £363m. The movement on equities is partially offset by the £141m gain on the equity hedges, which is recognised in total gains.

90% of the total investment portfolio is invested in high quality fixed income and cash assets. The fixed interest portfolio remains concentrated on high quality short dated assets, with 99% of the bond portfolio investment grade, and 83% rated AA or above. The bond holdings are well diversified, with 74% invested in currencies other than Sterling, and 48% invested in non government bonds (2007: 45% invested in non government bonds). The average duration is 2.7 years for the Group, and 2.0 years in the UK.

The non government bond portfolio of £5.6bn comprises £1.8bn of Scandinavian Mortgage Bonds, £2.2bn of other financials and £1.6bn of non financials. The Scandinavian Mortgage Bonds portfolio comprises £1.2bn of Swedish bonds, which are all rated AAA, and £0.6bn of Danish bonds, which are principally rated Aaa. The average duration on the Scandinavian Mortgage Bond portfolio is 2.6 years with an average LTV of 50-60%. Total holdings have increased by £0.4bn since 30 September 2008, primarily reflecting foreign exchange and positive valuation movements. Within the £2.2bn of other financial exposure, £0.6bn is in supranational and sovereign backed entities, £0.3bn in other non bank financials and £1.3bn in banks. Of the £1.3bn in banks, just £320m of this is subordinated debt and only £90m is Tier 1, the vast majority of which is in Canadian banks, with only £10m in the UK.

At the year end, equities (excluding preference shares and Collective Investment Vehicles backed by fixed income and cash) comprised 5% of the portfolio. We have hedged our equity exposure for the past 4 years and around 75% of this exposure remains hedged with a rolling programme of put and call options, providing protection down to a FTSE level of 2825.

The commercial property portfolio is only 2% of investment assets and comprises high quality commercial properties and does not include any development properties. The Group's CDO exposure is £81m, and includes £76m of CLOs which have experienced no downgrades.

At 31 December 2008, unrealised gains on the balance sheet were £263m (31 December 2007: £461m).

## OTHER INFORMATION

### Capital position

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

	31 December 2008 Requirement £bn	31 December 2008 Surplus £bn	31 December 2007 Surplus £bn
Insurance Groups Directive	1.1	1.7	1.5

The IGD surplus was £1.7bn compared with £1.5bn at 31 December 2007 and coverage over the IGD requirement is 2.5 times (31 December 2007: 2.5 times). The improvement in IGD surplus is mainly attributable to the profits for the year and positive foreign exchange movements, offset by the dividend, unrealised investment losses and an increase in the capital requirement in line with business growth. A 30% fall in the FTSE from the year end level of around 4,400 would reduce the IGD surplus by an estimated £0.2bn.

At 31 December 2008, the Group had surplus economic capital of around £1.8bn, 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 1 year of 99.94%. The Group calculates its economic capital position using a global multi year stochastic economic capital model and the 2008 surplus has been calculated to fully reflect current lower asset values and lower current and future investment returns. 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.

The Group is currently rated A stable outlook by Standard & Poor's and A- positive outlook by AM Best. The Group was upgraded by Moody's to A2 stable outlook in December 2008.

Our financing and liquidity position is strong. Our committed £455m senior facility remains undrawn and matures in 2013. The next call on any external financing is on the €500m subordinated guaranteed bonds in October 2009, and we will be reviewing options over the next few months.

### **Combined operating ratio**

The combined operating ratio represents the sum of expense and commission costs expressed in relation to net written premiums and claim costs expressed in relation to net earned premiums. The calculation of the COR of 94.5% was based on net written premiums of £6,462m and net earned premiums of £6,358m.

### **Net asset value per share**

The net asset value per share at 31 December 2008 was 112p (31 December 2007: 91p), and 101p excluding IAS 19 (2007: 88p). At 20 February 2009, the net asset value per share was estimated at 105p.

The net asset value per share at 31 December 2008 was based on total shareholders' funds of £3,839m, adjusted by £125m for preference shares, and shares in issue at the period end of 3,317,539,143 (excluding those held in the ESOP trusts).

### **Dividend**

The directors will recommend at the Annual General Meeting, to be held on 18 May 2009, that a final ordinary dividend of 4.98p (2007: 4.53p) per share be paid. This, together with the interim dividend of 2.73p paid on 28 November 2008, will make a total distribution for the year of 7.71p (2007: 7.01p).

The final dividend will be payable on 5 June 2009 to shareholders on the register at the close of business on 6 March 2009. Shareholders will be offered a scrip dividend alternative. Scrip dividend mandates need to be received by Equiniti Limited before 7 May 2009. The first preference share dividend for 2009 will be payable on 1 April 2009 to holders of such shares on the register at the close of business on 6 March 2009.

### **Related party transactions**

In 2008, 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](http://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 available via a listen only conference call by dialling UK Freephone 0800 358 5256 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 7 May 2009.

The half yearly 2009 results will be announced on 6 August 2009.

### **MANAGEMENT BASIS OF REPORTING**

The following analysis on pages 10 to 13 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 and other activities. Estimation techniques, risks, uncertainties and contingencies are included on pages 17 to 20. Financial information on a statutory basis is included on pages 21 to 28.

## SUMMARY CONSOLIDATED INCOME STATEMENT

### MANAGEMENT BASIS

	12 Months 2008 £m	12 Months 2007 £m
<b>Continuing operations</b>		
Net written premiums	6,462	5,837
Underwriting result	384	278
Investment income	654	591
Realised gains	150	174
Unrealised gains/(losses), impairments and foreign exchange	(118)	(55)
Unwind of discount including ADC	(92)	(81)
Investment result	594	629
Insurance result	978	907
Other activities	(111)	(93)
<b>Operating result</b>	<b>867</b>	<b>814</b>
Interest costs	(108)	(104)
Amortisation	(18)	(18)
<b>Profit before disposals</b>	<b>741</b>	<b>692</b>
Profit/(loss) on disposals	18	(22)
Profit before tax	759	670
Taxation	(173)	(29)
<b>Profit after tax from continuing operations</b>	<b>586</b>	<b>641</b>
<b>Discontinued operations</b>		
Loss after tax from discontinued operations	-	(13)
<b>Profit after tax</b>	<b>586</b>	<b>628</b>

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

Basic	17.3p	19.3p
Diluted	17.0p	19.0p

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

Basic	17.3p	18.9p
Diluted	17.0p	18.6p

## SUMMARY CONSOLIDATED BALANCE SHEET

### MANAGEMENT BASIS

	31 December 2008 £m	31 December 2007 £m
<b>Assets</b>		
Goodwill and other intangible assets	744	663
Property and equipment	309	377
Associated undertakings	123	105
Investments		
Investment property	365	429
Equity securities	940	1,487
Debt and fixed income securities	11,642	9,581
Other	166	272
Total investments - management basis	13,113	11,769
Reinsurers' share of insurance contract liabilities	1,759	1,872
Insurance and reinsurance debtors	2,890	2,579
Deferred acquisition costs	653	542
Other debtors and other assets	1,659	1,069
Cash and cash equivalents	1,614	1,509
Assets associated with continuing operations	22,864	20,485
Assets associated with discontinued operations*	3	108
<b>Total assets</b>	<b>22,867</b>	<b>20,593</b>
<b>Equity, reserves and liabilities</b>		
<b>Equity and reserves</b>		
Shareholders' funds	3,839	3,077
Minority interests	81	67
<b>Total equity and reserves</b>	<b>3,920</b>	<b>3,144</b>
Loan capital	1,311	1,194
<b>Total equity, reserves and loan capital</b>	<b>5,231</b>	<b>4,338</b>
<b>Liabilities (excluding loan capital)</b>		
Insurance contract liabilities	15,055	13,727
Insurance and reinsurance liabilities	545	426
Borrowings	300	303
Provisions and other liabilities	1,736	1,734
Liabilities associated with continuing operations	17,636	16,190
Liabilities associated with discontinued operations*	-	65
<b>Total liabilities (excluding loan capital)</b>	<b>17,636</b>	<b>16,255</b>
<b>Total equity, reserves and liabilities</b>	<b>22,867</b>	<b>20,593</b>

These summary consolidated financial statements have been approved for issue by the Board of Directors on 25 February 2009.

\* Assets and liabilities associated with discontinued operations in 2008 relate to property held for sale and in 2007 to a UK subsidiary and property held for sale.

## OTHER INFORMATION

### MANAGEMENT BASIS

#### Movement in net assets

	Shareholders' funds	Minority interest	Loan capital	Net assets
	£m	£m	£m	£m
<b>Balance at 1 January 2008</b>	<b>3,077</b>	<b>67</b>	<b>1,194</b>	<b>4,338</b>
Profit after tax	574	12	-	<b>586</b>
Exchange gains net of tax	314	12	119	<b>445</b>
Fair value losses net of tax	(191)	(2)	-	<b>(193)</b>
Pension fund actuarial gains net of tax	204	-	-	<b>204</b>
Amortisation of loan capital	-	-	(2)	<b>(2)</b>
Share issue	84	-	-	<b>84</b>
Changes in shareholders' interests in subsidiaries	(2)	-	-	<b>(2)</b>
Share options	25	-	-	<b>25</b>
Prior year final dividend	(147)	(8)	-	<b>(155)</b>
Current year interim dividend	(90)	-	-	<b>(90)</b>
Preference dividend	(9)	-	-	<b>(9)</b>
<b>Balance at 31 December 2008</b>	<b>3,839</b>	<b>81</b>	<b>1,311</b>	<b>5,231</b>

Net assets have increased by £893m to £5,231m. This increase primarily reflects the profit after tax for the period of £586m, exchange gains of £445m and pension fund actuarial gains of £204m, offset by fair value losses of £193m and dividends paid in 2008 of £254m.

#### Pension fund surplus

The table below provides a reconciliation of the Group pension fund surplus (net of tax) from 1 January 2008 to 31 December 2008.

	UK £m	Other £m	Group £m
<b>Pension fund at 1 January 2008</b>	<b>154</b>	<b>(38)</b>	<b>116</b>
Actuarial gains/(losses)	211	(7)	<b>204</b>
Asset reallocation funding	30	-	<b>30</b>
Other movements	17	(4)	<b>13</b>
<b>Pension fund at 31 December 2008</b>	<b>412</b>	<b>(49)</b>	<b>363</b>

The surplus on the pension scheme as at 31 December 2008 is £363m compared with £116m at the start of the year. The movement is due to the increase in discount rate for the UK schemes from 5.6% to 6.2% (which includes an allowance for current pricing of financial corporate bonds) and the change in the inflation assumption from 3.2% to 2.8%.

The assets in the pension funds performed strongly over the year, reflecting the defensive asset mix, with only 22% of the assets invested in equities.

The Group uses medium cohort assumptions for mortality, using PFA92 and PMA92 tables. The life expectancy of a male pensioner aged 60 is assumed to be 25.8 years, and 27.0 years for a female pensioner.

## Cashflow – management basis

	12 Months 2008 £m	12 Months 2007 £m
Operating cashflow	780	652
Tax paid	(101)	(127)
Interest paid	(107)	(92)
Group dividends	(181)	(111)
Dividend to minorities	(8)	(31)
<b>Net cashflow</b>	<b>383</b>	<b>291</b>
Issue of share capital	19	304
Pension asset reallocation funding	(37)	(86)
Net movement of debt	(2)	223
Corporate activity	(101)	(888)
<b>Cash movement</b>	<b>262</b>	<b>(156)</b>
Represented by:		
Decrease in cash and cash equivalents	(91)	(352)
Purchase of other investments	353	196
	<b>262</b>	<b>(156)</b>

The Group's operating cashflow has increased by 20% to £780m, benefitting from strong operational cash flows and the disposal of Group occupied properties. Tax paid of £101m is £26m lower than 2007, primarily due to the timing of statutory instalments in Scandinavia and Canada. Interest paid of £107m is £15m up on 2007, reflecting repo activity and the foreign exchange impact on Euro bonds. Group dividends have increased by £70m to £181m, due to the dividend increase and the lower take up of scrip dividend in 2008. The pension funding payment of £37m is part of our pension scheme asset reallocation strategy. The issue of share capital and corporate activity in 2007 primarily related to the purchase of the Codan minority. Corporate activity in 2008 of £101m includes a number of small acquisitions in the UK and International, further capital investment in our associates and the disposal of run off books in the UK and Scandinavia.

## Loss development tables

The table below presents the general insurance claims provisions net of reinsurance for the accident years 2001 and prior, through to 2008. 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 2008 showed favourable experience across all accident years and regions, and totalled £369m, net of reinsurance. The total discounting at the end of 2008 was £671m representing an increase of £70m in the year, due to the impact of foreign exchange. 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 £437m (2007: £327m) with the increase in the year driven primarily by foreign exchange and growth in the business.

	2001 and prior £m	2002 £m	2003 £m	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m	Total £m
Estimate of cumulative claims									
At end of accident year	7,380	2,534	2,314	2,139	2,321	2,332	2,399	2,343	
1 year later	7,660	2,479	2,317	2,014	2,178	2,300	2,394		
2 years later	7,788	2,481	2,235	1,836	2,098	2,221			
3 years later	8,181	2,462	2,129	1,768	2,030				
4 years later	8,229	2,382	2,072	1,712					
5 years later	8,699	2,353	2,027						
6 years later	8,637	2,322							
7 years later	8,552								
Claims paid									
1 year later	2,372	1,036	835	675	887	929	1,068		
2 years later	1,213	347	286	247	280	332			
3 years later	1,063	254	200	178	161				
4 years later	557	166	104	134					
5 years later	395	90	88						
6 years later	259	72							
7 years later	254								
Cumulative claims paid	6,113	1,965	1,513	1,234	1,328	1,261	1,068		
Current year provision before discounting	<b>2,439</b>	<b>357</b>	<b>514</b>	<b>478</b>	<b>702</b>	<b>960</b>	<b>1,326</b>	<b>2,343</b>	<b>9,119</b>
Exchange adjustment to closing rates									<b>835</b>
Discounting									<b>(671)</b>
Annuity reserves									<b>437</b>
<b>Present value recognised in the balance sheet</b>									<b>9,720</b>

## Asbestos reserves

The technical provisions include £915m 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 2008 analysed by risk and survival ratio:

	Total	UK risks written in the UK	US risks written in the UK
<b>Provisions in £m</b>			
Net of reinsurance	<b>915</b>	824	91
Net of discount	<b>484</b>	419	65
<b>Survival ratios (Gross of discount) - On payment</b>			
One year	<b>39</b>	40	36
Three year average	<b>44</b>	49	23
<b>Survival ratios (Gross of discount) - On notifications</b>			
One year	<b>40</b>	42	30
Three year average	<b>41</b>	46	21

## REGIONAL ANALYSIS OF INSURANCE OPERATIONS

### 12 MONTHS TO 31 DECEMBER

	Net written premiums		Increase as reported %	Increase at constant exchange %
	2008 £m	2007 £m		
United Kingdom	2,711	2,688	1	1
International	2,998	2,513	19	6
Emerging Markets	738	615	20	7
Group Re	15	21	(29)	(29)
<b>Total Group</b>	<b>6,462</b>	<b>5,837</b>	<b>11</b>	<b>4</b>

	Underwriting result		Investment result		Insurance result	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
United Kingdom	99	65	317	372	416	437
International	262	206	237	212	499	418
Emerging Markets	23	18	40	42	63	60
Group Re	-	(11)	-	3	-	(8)
<b>Total Group</b>	<b>384</b>	<b>278</b>	<b>594</b>	<b>629</b>	<b>978</b>	<b>907</b>

	Operating ratios					
	2008		Combined %	2007		Combined %
Claims %	Expenses %	Claims %		Expenses %		
United Kingdom	64.3	33.3	97.6	63.1	34.5	97.6
International	68.3	22.9	91.2	68.5	22.8	91.3
Emerging Markets	55.7	40.7	96.4	58.0	37.3	95.3
<b>Total Group</b>	<b>65.1</b>	<b>29.4</b>	<b>94.5</b>	<b>65.2</b>	<b>29.7</b>	<b>94.9</b>

## INVESTMENT RESULT BY REGION

### 12 MONTHS TO 31 DECEMBER 2008

	UK	International	Emerging Markets	Group Re	Group
	£m	£m	£m	£m	£m
Investment income	325	259	38	32	<b>654</b>
Realised gains	77	61	9	3	<b>150</b>
Unrealised gains/(losses), impairments and foreign exchange	(61)	(48)	(7)	(2)	<b>(118)</b>
Unwind of discount including ADC	(24)	(35)	-	(33)	<b>(92)</b>
<b>Investment result</b>	<b>317</b>	<b>237</b>	<b>40</b>	<b>-</b>	<b>594</b>

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	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 %	2007 %
<b>Personal</b>						
Household	557	591	31	(15)	92.4	102.6
Motor	469	436	7	4	98.3	98.7
Other	70	47	(1)	7	98.9	80.7
<b>Total UK Personal</b>	<b>1,096</b>	<b>1,074</b>	<b>37</b>	<b>(4)</b>	<b>95.0</b>	<b>100.6</b>
<b>Commercial</b>						
Property	594	634	(38)	(22)	112.7	104.4
Casualty	315	331	19	36	97.4	89.5
Motor	494	465	38	42	92.4	90.8
Other	212	184	43	13	80.2	91.4
<b>Total UK Commercial</b>	<b>1,615</b>	<b>1,614</b>	<b>62</b>	<b>69</b>	<b>99.3</b>	<b>95.9</b>
<b>Total UK</b>	<b>2,711</b>	<b>2,688</b>	<b>99</b>	<b>65</b>	<b>97.6</b>	<b>97.6</b>

## INTERNATIONAL INSURANCE OPERATIONS

12 MONTHS TO 31 DECEMBER

	Net written premiums		Underwriting result		Operating ratio	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 %	2007 %
<b>Personal</b>						
Scandinavia	875	768	146	70	83.8	90.5
Canada	667	520	39	32	93.2	93.3
Other Europe	299	245	1	36	99.7	83.1
<b>Total Personal</b>	<b>1,841</b>	<b>1,533</b>	<b>186</b>	<b>138</b>	<b>89.8</b>	<b>90.4</b>
<b>Commercial</b>						
Scandinavia	727	611	44	46	93.5	92.4
Canada	217	183	18	18	92.2	90.3
Other Europe	213	186	14	4	94.5	97.2
<b>Total Commercial</b>	<b>1,157</b>	<b>980</b>	<b>76</b>	<b>68</b>	<b>93.3</b>	<b>93.0</b>
<b>Total</b>						
Scandinavia	1,602	1,379	190	116	88.3	91.4
Canada	884	703	57	50	92.9	92.4
Other Europe	512	431	15	40	97.1	89.1
<b>Total International</b>	<b>2,998</b>	<b>2,513</b>	<b>262</b>	<b>206</b>	<b>91.2</b>	<b>91.3</b>

## 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 balance sheet date. Outstanding claims represent the company's estimate of the cost of settlement of claims that have occurred by the balance sheet date 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 balance sheet date 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. A stochastic valuation approach, whereby a range of possible outcomes is estimated and probabilities assigned thereto, is only possible in a limited number of situations.

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 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) from S&P upgraded from 'A-' in December 2007, 'A-' (positive outlook) from AM Best and 'A2' (stable) 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. Balance sheet assets and liabilities are translated at the closing exchange rates at the balance sheet date.

**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. We continue to monitor the developments and react accordingly.

In particular the Group is continuing to monitor and respond to developments relating to the Solvency II Framework Directive, which is intended, in the medium term, to achieve greater harmonisation of approach across European member states to assessing capital resources and requirements. The directors are confident that the Group will continue to meet all future regulatory capital requirements.

## Condensed Financial Statements

Condensed consolidated income statement	22
Condensed statement of recognised income and expense	23
Condensed consolidated balance sheet	24
Condensed cashflow statement	25
Explanatory notes to the condensed consolidated financial statements	26

**CONDENSED CONSOLIDATED INCOME STATEMENT**
**STATUTORY BASIS**

	<b>12 Months 2008 (audited) £m</b>	12 Months 2007 (audited) £m
<b>Continuing operations</b>		
<b>Income</b>		
Gross written premiums	7,273	6,596
Less: reinsurance premiums	(811)	(759)
Net written premiums	6,462	5,837
Change in the gross provision for unearned premiums	(112)	(235)
Less: change in provision for unearned premiums, reinsurers' share	8	5
Change in provision for unearned premiums	(104)	(230)
Net earned premiums	6,358	5,607
Net investment return	681	709
Other operating income	104	113
<b>Total income</b>	<b>7,143</b>	<b>6,429</b>
<b>Expenses</b>		
Gross claims incurred	(4,205)	(4,044)
Less: claims recoveries from reinsurers	63	387
Net claims and benefits	(4,142)	(3,657)
Underwriting and policy acquisition costs	(1,925)	(1,776)
Unwind of discount including ADC	(92)	(81)
Other operating expenses	(117)	(119)
<b>Total expenses</b>	<b>(6,276)</b>	<b>(5,633)</b>
<b>Results of operating activities</b>	<b>867</b>	<b>796</b>
Finance costs	(108)	(104)
Profit/(loss) on disposals	18	(22)
Net share of loss after tax of associates	(18)	-
Profit before tax	759	670
Income tax expense	(173)	(29)
<b>Profit after tax from continuing operations</b>	<b>586</b>	<b>641</b>
<b>Discontinued operations</b>		
Loss after tax from discontinued operations	-	(13)
<b>Profit after tax</b>	<b>586</b>	<b>628</b>
Attributable to:		
Equity holders of the Company	574	596
Minority interests	12	32
<b>Profit after tax</b>	<b>586</b>	<b>628</b>
Earnings per share for profit from continuing operations attributable to the ordinary shareholders of the Company:		
Basic	17.3	19.3
Diluted	17.0	19.0
Earnings per share on profit attributable to the ordinary shareholders of the Company:		
Basic	17.3	18.9
Diluted	17.0	18.6

Earnings per share for profit from continuing operations attributable to the ordinary shareholders of the Company:

Basic	17.3	19.3
Diluted	17.0	19.0

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

Basic	17.3	18.9
Diluted	17.0	18.6

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

**CONDENSED STATEMENT OF RECOGNISED INCOME AND EXPENSE**

**STATUTORY BASIS**

	<b>12 Months 2008 (audited) £m</b>	12 Months 2007 (audited) £m
Exchange gains net of tax	<b>326</b>	140
Fair value losses net of tax	<b>(193)</b>	(67)
Pension fund actuarial gains/(losses) net of tax	<b>204</b>	(16)
<b>Net gains recognised in equity</b>	<b>337</b>	57
<b>Profit after tax</b>	<b>586</b>	628
<b>Total recognised income for the year</b>	<b>923</b>	685
Attributable to:		
Equity holders of the Company	<b>901</b>	670
Minority interests	<b>22</b>	15
	<b>923</b>	685

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

**CONDENSED CONSOLIDATED BALANCE SHEET**
**STATUTORY BASIS**

	31 December 2008 (audited) £m	31 December 2007 (audited) £m
<b>Assets</b>		
Goodwill and other intangible assets	744	663
Property and equipment	309	377
Investment property	365	429
Investment in associates	123	105
Financial assets	12,748	11,340
Total investments	13,236	11,874
Reinsurers' share of insurance contract liabilities	1,759	1,872
Insurance and reinsurance debtors	2,890	2,579
Deferred acquisition costs	653	542
Current tax assets	40	19
Deferred tax assets	142	87
Other debtors and other assets	1,477	963
	1,659	1,069
Cash and cash equivalents	1,614	1,509
	<b>22,864</b>	<b>20,485</b>
Non current and disposal group assets held for sale*	3	108
<b>Total assets</b>	<b>22,867</b>	<b>20,593</b>
<b>Equity, reserves and liabilities</b>		
<b>Equity and reserves</b>		
Shareholders' funds	3,839	3,077
Minority interests	81	67
<b>Total equity and reserves</b>	<b>3,920</b>	<b>3,144</b>
<b>Liabilities</b>		
Loan capital	1,311	1,194
Insurance contract liabilities	15,055	13,727
Insurance and reinsurance liabilities	545	426
Borrowings	300	303
Current tax liabilities	215	92
Deferred tax liabilities	238	224
Provisions	240	331
Other liabilities	1,043	1,087
Provisions and other liabilities	1,736	1,734
	<b>18,947</b>	<b>17,384</b>
Non current and disposal group liabilities held for sale*	-	65
<b>Total liabilities</b>	<b>18,947</b>	<b>17,449</b>
<b>Total equity, reserves and liabilities</b>	<b>22,867</b>	<b>20,593</b>

These condensed consolidated financial statements have been approved for issue by the Board of Directors on 25 February 2009.

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

\* Non current and disposal group assets and liabilities held for sale in 2008 relate to property and in 2007 relate to a UK subsidiary and property.

## CONDENSED CASHFLOW STATEMENT

### STATUTORY BASIS

	12 Months 2008 (audited) £m	12 Months 2007 (audited) £m
<b>Cash generated from continuing operations</b>	<b>137</b>	66
Tax paid	(101)	(127)
Interest received	632	587
Interest paid	(107)	(101)
Dividends received	3	1
Pension asset reallocation funding	(37)	(86)
Cashflows from discontinued operations	-	(37)
<b>Net cashflows from operating activities</b>	<b>527</b>	303
Proceeds from sales or maturities of:		
Investment contracts	5,184	8,672
Investment property	3	18
Property and equipment	20	26
Intangible assets	-	1
Investments in subsidiaries (net of cash disposed of)	78	(407)
Investments in associates	-	22
Purchase or settlement of:		
Investment contracts	(5,528)	(8,878)
Investment property	(10)	(8)
Property and equipment	(64)	(28)
Intangible assets	(72)	(66)
Investments in subsidiaries (net of cash acquired)	(25)	(52)
Investments in associates	(32)	(64)
Cashflows from discontinued operations	-	83
<b>Net cashflows from investing activities</b>	<b>(446)</b>	(681)
Proceeds from issue of share capital	19	304
Purchase of shares from minorities	-	(616)
Dividends paid to ordinary shareholders	(172)	(102)
Dividends paid to preference shareholders	(9)	(9)
Dividends paid to minority interests	(8)	(31)
Net movement in long term borrowings	-	(25)
Net movement in other borrowings	(2)	293
<b>Net cashflows from financing activities</b>	<b>(172)</b>	(186)
Net decrease in cash and cash equivalents and bank overdrafts	(91)	(564)
Cash and cash equivalents and bank overdrafts at beginning of the year	1,538	2,040
Effect of exchange rate changes on cash and cash equivalents	167	62
<b>Cash and cash equivalents and bank overdrafts at end of the year</b>	<b>1,614</b>	1,538

A reconciliation of cash and cash equivalents and bank overdrafts at the end of the period to the condensed consolidated balance sheet 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 consolidated financial statements in this report have been prepared according to the same recognition and measurement criteria.

There have been no significant changes in accounting policy and methods of computation in the twelve months to 31 December 2008. A full list of accounting policies can be found in the 2008 Annual Report and Accounts (see note 10 below).

In considering the appropriateness of the going concern basis the Board have reviewed the Group's ongoing financial commitments for the next twelve 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 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
<b>Results of operating activities (per condensed consolidated income statement)</b>					<b>867</b>
<b>Combined operating ratio (%)</b>	<b>97.6</b>	<b>91.2</b>	<b>96.4</b>	<b>-</b>	<b>94.5</b>
<b>Segment assets (£m)</b>	<b>8,903</b>	<b>11,003</b>	<b>1,938</b>	<b>897</b>	<b>22,741</b>

12 months ended 31 December 2007

	UK	International	Emerging Markets	Group Re	Group
	£m	£m	£m	£m	£m
Net written premiums	2,688	2,513	615	21	5,837
Underwriting result	65	206	18	(11)	278
Investment result	372	212	42	3	629
Insurance result	437	418	60	(8)	907
Other activities	(1)	(8)	(6)	(78)	(93)
Operating result (management basis)	436	410	54	(86)	814
Amortisation					(18)
<b>Results of operating activities (per condensed consolidated income statement)</b>					<b>796</b>
<b>Combined operating ratio (%)</b>	<b>97.6</b>	<b>91.3</b>	<b>95.3</b>	<b>-</b>	<b>94.9</b>
<b>Segment assets (£m)</b>	<b>8,716</b>	<b>8,977</b>	<b>1,474</b>	<b>1,213</b>	<b>20,380</b>

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 2007 comparative data) has been prepared on the same basis as reported in the 2008 Annual Report and Accounts. The segment assets exclude investment in associates and non current and disposal group assets 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 3,273,492,014 and 3,328,303,198 respectively (excluding those held in ESOP trusts). The number of shares in issue at 31 December 2008 was 3,317,539,143 (excluding those held in ESOP trusts).

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

During 2008, changes to claims reserve estimates made in prior years as a result of reserve development is included in the prior year profit of £291m (2007: £348m).

The Group pension fund surplus net of tax as at 31 December 2008 is £363m (31 December 2007: £116m). Further information on the pension fund surplus is included on page 12.

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

On 11 February 2008, the Group acquired 100% of the share capital of Fyfe Group Limited in the UK. On 31 March 2008, the Group acquired 100% of the share capital of Sertus Underwriting Limited in Ireland. The Group also made small acquisitions in Canada and Scandinavia. The total consideration was £28m and goodwill of £25m arose on acquisitions. The acquisitions do not have a material impact on the Group's results for 2008.

On 29 February 2008 the Group obtained regulatory approval for the disposal of Guildhall Insurance Company Limited. The disposal generated a £1m pre tax profit. The net assets were classified as held for sale at 31 December 2007. On 18 May 2008 the Group dissolved a French subsidiary, Royal & Sun Alliance SA that generated a £17m pre tax profit. The profits on disposal represent foreign exchange, which is recycled from shareholders' funds and does not impact total equity.

### 6. Changes in total equity and reserves for the period to 31 December

	Shareholders' funds £m	Minority interest £m	Total equity and reserves £m
<b>Balance at 1 January 2008</b>	<b>3,077</b>	<b>67</b>	<b>3,144</b>
Total recognised income for the year	901	22	<b>923</b>
Share issue	84	-	<b>84</b>
Changes in shareholders' interests in subsidiaries	(2)	-	<b>(2)</b>
Share options	25	-	<b>25</b>
Prior year final dividend	(147)	(8)	<b>(155)</b>
Current year interim dividend	(90)	-	<b>(90)</b>
Preference dividend	(9)	-	<b>(9)</b>
<b>Balance at 31 December 2008</b>	<b>3,839</b>	<b>81</b>	<b>3,920</b>

## 6. Changes in total equity and reserves for the period to 31 December (continued)

	Shareholders' funds £m	Minority interest £m	Total equity and reserves £m
<b>Balance at 1 January 2007</b>	2,561	331	2,892
Total recognised income for the year	670	15	685
Share issue	404	-	404
Changes in shareholders' interests in subsidiaries	(368)	(248)	(616)
Share options	21	-	21
Prior year final dividend	(123)	(31)	(154)
Current year interim dividend	(79)	-	(79)
Preference dividend	(9)	-	(9)
<b>Balance at 31 December 2007</b>	<b>3,077</b>	<b>67</b>	<b>3,144</b>

During the twelve months to 31 December 2008, 24,707,235 (2007: 12,448,823) ordinary shares were issued on the exercise of employee share options. The Company also issued 51,770,891 (2007: 66,632,200) ordinary shares under the scrip scheme approved by the shareholders at the 2008 Annual General Meeting. During 2007, the Company issued 186,350,000 ordinary shares in a placing to fund the acquisition of Codan A/S.

## 7. Cashflow

	12 Months 2008 £m	12 Months 2007 £m
Cash and cash equivalents and bank overdrafts (as reported within the condensed cashflow statement)	<b>1,614</b>	1,538
Add: bank overdrafts	-	3
Transfer to non current and disposal group assets held for sale	-	(32)
<b>Total cash and cash equivalents</b>	<b>1,614</b>	1,509

## 8. Dividends

	31 December 2008		31 December 2007	
	Per share p	Total £m	Per share p	Total £m
<b>Ordinary dividend</b>				
Final paid in respect of prior year	<b>4.53</b>	<b>147</b>	4.12	123
Interim paid in respect of current year	<b>2.73</b>	<b>90</b>	2.48	79
	<b>7.26</b>	<b>237</b>	6.60	202
<b>Preference dividend</b>		<b>9</b>		9
		<b>246</b>		211

## 9. Exchange rates

Local currency/£	12 Months 2008		12 Months 2007	
	Average	Closing	Average	Closing
Canadian Dollar	<b>1.96</b>	<b>1.77</b>	2.14	1.96
Danish Kroner	<b>9.39</b>	<b>7.70</b>	10.88	10.15
Euro	<b>1.26</b>	<b>1.03</b>	1.46	1.36

## 10. Results for 2008

The financial information set out in the announcement does not constitute the company's statutory accounts for the years ended 31 December 2008 or 2007. The financial information for the year ended 31 December 2007 is derived from the statutory accounts for that year which have been delivered to the Registrar of Companies. The statutory Group financial statement of RSA Insurance Group plc for the year ended 31 December 2008 will be delivered to the Registrar of Companies following the Annual General Meeting to be held on 18 May 2009. The independent auditors' reports on the Group accounts for the years ended 31 December 2007 and 2008 were unqualified, did not draw attention to any matters by way of emphasis and did not include a statement under section 237(2) or (3) of the Companies Act 1985.

**RESPONSIBILITY STATEMENT**

We confirm that to the best of our knowledge:

- a) The financial statements within the full Annual Report & 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 fair view of the assets, liabilities, financial position and profit or loss 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

25 February 2009

George Culmer  
Chief Financial Officer

25 February 2009

**THIS PAGE INTENTIONALLY LEFT BLANK**