

24 February 2011

YEAR END RESULTS 2010

Strong performance despite extreme weather conditions

- Net written premiums of £7.5bn up 11%
- Combined operating ratio (COR) of 96.4%, includes 3.5 points of weather losses worse than normal levels
- Operating result of £636m
- IGD surplus of £1.5bn, representing coverage of 2.3x
- Final dividend up 7% to 5.70p, giving a full year dividend increase of 7%

Delivery against strategic objectives

- Driven profitable top line growth in all regions due to rate, targeted volume increases and acquisitions
- Emerging Markets beats £1bn net written premium target
- Indian associate continues to grow strongly, with NWP up by 35% to £116m
- Acquisitions in Canada, Ireland, Sweden, Denmark and Oman and Tesco affinity in UK operational from October
- Completed UK cost reduction programme generating £70m of annualised savings

Confident of delivering premium growth and strong profitability

- Portfolio of high performing businesses with strong market positions and exciting potential
 - Deliver targeted growth and a much improved underwriting result in the UK in 2011
 - International 2011 NWP growth to be around 10% with continued strong profitability
 - Emerging Markets to drive double digit growth in 2011
- Combined operating ratio for 2011 expected to be better than 95%
- Emerging Markets NWP to double to around £2.2bn by the end of 2015
- International and Emerging Markets to represent around 70% of premiums in the next five years

	12 Months 2010	12 Months 2009	Movement*
Net written premiums	£7,455m	£6,737m	11%
Underwriting result	£238m	£386m	(38)%
Combined operating ratio	96.4%	94.6%	(1.8)pts
Operating result ⁽¹⁾	£636m	£777m	(18)%
Profit before tax ⁽¹⁾	£474m	£554m	(14)%
Profit after tax ⁽¹⁾	£355m	£419m	(15)%
Final dividend for the year per ordinary share	5.70p	5.33p	7%
Dividend for the year per ordinary share	8.82p	8.25p	7%
	31 December 2010	31 December 2009	
Financial position			
Shareholders' funds	£3,766m	£3,491m	8%
Net asset value per share excluding IAS 19	108p	106p	2%
Net asset value per share	104p	99p	5%

* Reported exchange rate

Andy Haste, Group CEO of RSA, commented:

"This is a strong top line and robust underwriting performance in what has been an extremely tough year for the industry and to deliver a combined ratio of 96.4% in these conditions underlines the strength and resilience of the Group.

We go into 2011 with confidence and despite challenging market conditions, expect to deliver targeted growth in the UK, around 10% in International and double digit growth in Emerging Markets. As it stands today and assuming a return to more normal levels of weather losses, we also expect to deliver a combined for the Group of better than 95%.

Our strategy of targeted growth in the UK while realising the strong growth opportunities in International and Emerging Markets will result in a further shift of the business towards these regions. Our target is to double Emerging Markets premiums by the end of 2015 and we would expect International and Emerging Markets to represent around 70% of total premiums in the next five years. The 7% increase in the final dividend to 5.70p (2009: 5.33p) reflects our confidence in the outlook for the Group."

For further information:

Analysts

Claire Cordell
Tel: +44 (0) 20 7111 7212
Mobile: +44 (0) 7834 944 204

Simon Sperryn-Jones
Tel: +44 (0) 20 7111 7140
Mobile: +44 (0) 7771 996 221

Press

Louise Shield
Tel: +44 (0) 20 7111 7047
Mobile: +44 (0) 7786 114 662

Bart Nash
Tel: +44 (0) 20 7111 7336
Mobile: +44 (0) 7920 467 905

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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 11.

MANAGEMENT REPORT

CEO REVIEW

In what has been another tough year for the industry, with severe adverse weather and a number of catastrophe events including the earthquake in Chile, we have delivered a strong top line performance and robust underwriting and operating results. Net written premiums are up by 11% to £7.5bn (8% at constant exchange), driven by a balance of positive rate action, targeted volume increases and acquisitions, as well as the benefit of foreign exchange.

The underwriting result is £238m (2009: £386m) with a current year underwriting loss of £29m (2009: profit of £100m) and a prior year profit of £267m (2009: £286m). As disclosed in our press release on 20 January 2011, the current year result is impacted by severe weather across the Group, which is £255m worse than normal levels and £175m worse than 2009, and the Chile earthquake, for which the estimated net loss remains at £30m. The prior year result of £267m reflects positive run off from all regions. There was another strong contribution from International, particularly from Swedish Personal lines and Motor and General Liability in Canada, while in the UK, positive run-off is primarily driven by Commercial Property, Liability and Legacy. The combined operating ratio (COR) is 96.4% (2009: 94.6%) and the impact of the adverse weather on the COR is 3.5 points when compared with normal levels and 2.4 points compared with 2009.

The Group continues to adopt a prudent reserving policy for both current year and overall reserves. At 31 December 2010, reserves remain significantly to the right side of best estimate and given our prudent reserving policy, we continue to expect positive prior year development to be a significant feature of the underwriting result.

The investment result is £538m (2009: £523m) and includes investment income of £569m (2009: £595m) and total gains of £63m (2009: £28m), both ahead of guidance. Investment income has benefitted from management actions and foreign exchange, while total gains of £63m are predominantly driven by realised gains on equity sales as we have moved some of the portfolio into higher-yielding equities.

The operating result is £636m and profit before tax of £474m is after the remaining £5m of reorganisation costs for the UK cost reduction programme announced in February 2009 and completed in 2010. Profit after tax is £355m (2009: £419m). The underlying return on opening equity is 10.3% (2009: 12.7%), with the movement on 2009 due to lower underwriting profits, primarily driven by the adverse weather. The underlying return on equity based on average shareholders' funds was 9.9% for 2010 (2009: 13.4%). Excluding the impact of the worse than normal weather, the underlying return is 16.0% on opening equity and 15.3% based on average shareholders' funds.

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
	2010	2009	as reported	constant exchange	2010	2009	
	£m	£m	%	%	%	%	Points
International	3,536	3,249	9	5	90.6	91.7	1.1
UK	2,925	2,632	11	11	102.2	98.0	(4.2)
Emerging Markets	964	833	16	10	98.7	95.1	(3.6)
Group Re	30	23	30	30	-	-	-
Total Group	7,455	6,737	11	8	96.4	94.6	(1.8)

- International

International, our largest region, has delivered good top line growth and an outstanding underwriting performance. Premiums are up by 9% to £3,536m (5% at constant exchange) reflecting continued action on rate, targeted growth and the benefit of new deals across the region. The COR is an excellent 90.6% (2009: 91.7%) with the underwriting result up by 15% to £325m despite adverse weather in Scandinavia and Ireland.

In Scandinavia, premiums are up by 3% to £1,724m (1% at constant exchange), with good growth in Personal lines offsetting exposure reductions in Commercial lines. In Personal lines, premiums are up by 7% to £1,007m (4% at constant exchange) reflecting good growth in Norway, Swedish Personal Accident and Household across the region. Commercial lines net written premiums were down 1% to £717m (down 2% at constant exchange), with strong growth in Renewable Energy and Norway offset by the impact of exposure reductions in other lines. The integrations of our recent acquisitions of Sveland and the renewal rights to TrygVesta's Nordic Marine portfolio are both progressing well. The Scandinavian underwriting result was an excellent £254m and the COR improved by 0.8 points to 85.4% with strong performances in Personal Motor, Personal Accident, Care and Commercial Property. This result was despite the severe winter weather, with December 2010 reported to be the second coldest ever recorded in Denmark and the coldest since 1915 in Stockholm. The impact of the winter freeze is around £17m more than normal levels, with the cost spread evenly across Personal and Commercial lines driven by an increase in burst water pipes and Motor claims.

In Canada, top and bottom line performance has been excellent, with premiums up by 22% to £1,245m (9% at constant exchange). In Personal, net written premiums increased by 20% to £932m (7% at constant exchange) with Personal Intermediated up by 18% (5% at constant exchange) and Johnson, our direct business, up by 22% (9% at constant exchange) driven by excellent retention, rate and the addition of 25 new sponsorship groups during the year. Commercial net written premiums increased by around 29% to £313m (15% at constant exchange) due to rate and strong new business in the Mid-Market and SME segments. In January 2011, we received regulatory approval for our acquisition of GCAN, a leading mid-market, large risks & specialty commercial insurer. With this addition, RSA will become the fourth largest general insurer in the market, up from tenth in 2005. The underwriting performance was excellent despite adverse weather in June and July, with the underwriting result up 27% to £80m and a COR of 92.8% (2009: 93.5%) mainly due to Motor and Commercial Liability.

In Other Europe, premiums are up by 1% to £567m (5% at constant exchange), with growth in Ireland of 3% to £304m (7% at constant exchange) driven by positive rate action across all portfolios, including increases of 22% in Household and 20% in Personal Motor, and the benefit of recent affinity wins and acquisitions. RSA is now the second largest insurer in the Irish market and, with the acquisition of 123 Money, has a leading direct presence to complement its existing intermediated distribution. In Italy, we continue to take action on risk selection and rate, with premiums down 1% to £262m (up 3% at constant exchange). The COR for Other Europe is 101.5% (2009: 105.0%) and comprises an excellent COR of 90.9% in Ireland, despite the adverse weather, and the reduced Motor losses in Italy. We have seen the benefits of our actions in an improved performance in Personal Motor in Italy, where the underwriting loss in 2010 was £19m, (2009: £51m). We expect Italy to be closer to breakeven in 2011 and return to underwriting profitability in 2012.

With our focus on rate and risk selection, we are outperforming our peers in terms of profitability in Scandinavia, Canada and Ireland and we are taking the right action in Italy. We are confident that in 2011, the International portfolio will deliver around 10% premium growth and another strong bottom line performance.

- UK

The UK delivered an excellent top line performance with premiums up by 11% to £2.9bn. Our strategy of targeting profitable growth, taking positive action on rate and selective capacity withdrawal in a competitive market is unchanged.

In Personal, premiums are up by 13% to £1,241m driven by growth in Personal Broker due to rating action and increased shares on targeted broker panels with Personal Broker Household NWP up by 38% and Motor up by 45%. More than Household grew by 10% predominantly due to rating action and Pet again grew strongly, with premiums up by 25% supported by the Tesco Pet deal which is expected to deliver £100m of premiums in 2011. In Commercial lines, premiums grew by 10% to £1,684m with strong growth in Specialty lines, with Risk Solutions up by 19% in Europe and 12% in the UK. Growth of 19% in Commercial Motor is flattered by the phasing of a large three year contract and underlying growth is closer to 12%.

We continue to take action on rate, increasing renewal rates in Commercial by 10% in Motor, 5% in Liability and 4% in Property. In Personal we achieved 19% on Motor renewals and 5% in Household.

In terms of the underwriting result, the performance was disappointing. The loss of £95m (2009: profit of £75m) and the COR of 102.2% (2009: 98.0%) were impacted by £139m more weather losses than normal levels, mainly driven by £110m of additional losses in November and December. It was also a challenging year for Motor and as disclosed at the half year, we have taken action to exit a number of unprofitable schemes. Additionally, following a deep dive review into bodily injury we have strengthened prior year reserves by £25m, of which £22m relates to Commercial Motor.

Of the £110m of adverse weather in November and December, around £72m relates to Household, where we have a market share of around 6%, with a further £26m in Commercial Property and £12m across Motor and other classes. In Household, we experienced a significant increase in claims relating to burst water pipes, as well as an increase in claims from Household schemes. In Commercial Property, we have experienced over 2,300 claims and across the Motor book, in the period from 26th November to 24th December we experienced around a 70% increase in single vehicle accidents and around 20% more accidental damage claims compared with early November.

The UK expense ratio excluding commissions is 15% compared with 17% in 2009. We completed the expense savings programme announced in February 2009 in the first quarter of 2010 and achieved both the target headcount reduction of 1,200 and the £70m of annualised savings. The total cost of this programme was £80m as expected with the final £5m incurred in 2010. We remain on target to deliver an expense ratio of around 14% by the end of 2012.

In 2011, we expect the UK to deliver targeted growth and, assuming a return to a more normal level of weather losses, a much improved underwriting result.

- Emerging Markets

In Emerging Markets, premiums are up by 16% to £964m (10% at constant exchange). We have beaten our target of £1bn in premiums with total premiums including our Indian associate of £1,080m. Emerging Markets delivered a good underwriting result of £12m (2009: £29m) and COR of 98.7% despite the impact of the earthquake in Chile.

In Latin America, premiums are up by 35% to £575m (23% at constant exchange) with double digit growth in most markets. Argentina is up by 57% on a constant basis due to strong performances in Personal Motor and expanded distribution as we recruited new agents and focused on small and medium brokers. Colombia grew at 32% driven by a continued strong Affinity performance and good retention in Property and Engineering. In Brazil, premiums were up by 27% mainly due to Commercial Motor and Marine and in Chile, which grew at 14%, we experienced a solid recovery following the earthquake particularly in Property and Engineering. Across the region, Affinity continued to perform well and in 2010 we signed 21 new deals.

In Central and Eastern Europe, premiums are up by 15% to £202m (17% at constant exchange) due to the first full year of consolidation of our Direct operations in Poland, the Czech Republic and Russia. The Baltics were again impacted by the economic downturn, however, we maintained our market leading position. As we move into 2011, we are beginning to see positive signs of economic recovery in Lithuania and Estonia, with Latvia stabilising. Our Direct operations grew at 14% and we now insure over 340,000 vehicles across the three countries. Net written premiums are £59m in Poland, representing growth of 20% over 2009 at constant exchange, and in the Czech Republic premiums grew by 28% to £10m. In Russia, we tightly manage risk selection in the early stages, deliberately limiting portfolio growth and today insure over 30,000 vehicles, an increase of 19% compared with 2009.

As expected, in Asia and the Middle East premiums are down by 20% to £187m (down 21% at constant exchange) due to the benefit of several large construction contract wins in 2009. Excluding these contracts, premiums were up by 10% (7% at constant exchange) driven by an expanded agent network in Singapore, where premiums were up by 6% and Oman, which grew by 91% following the acquisition of Al Ahlia. In Oman, we are now a market leader and recently won the inaugural 'Oman Insurer of the year 2011' award.

Our Indian associate continues to deliver excellent growth, with premiums up by 35% to £116m (26% at constant exchange) due to another strong performance in Motor. Overall, premiums from associates reduced by 4% to £116m (9% at constant exchange) as 2010 includes only our Indian associate, whereas 2009 includes both India and six months of premiums relating to our Direct operations in Central & Eastern Europe before they became full subsidiaries in July 2009.

Emerging Markets returned to double digit growth in 2010 and we again expect to deliver double digit growth in 2011. Having beaten our goal of £1bn in premiums, we are setting a new target of doubling net written premiums to around £2.2bn by the end of 2015.

Outlook

We have built a portfolio of high performing operations with strong positions in attractive markets and exciting potential. In 2011, we expect to deliver targeted top line growth and a much improved underwriting result in the UK, around 10% growth and strong profitability in International and double digit growth in Emerging Markets.

We are setting a new target to double Emerging Markets premiums to around £2.2bn by the end of 2015 and will continue to focus the Group towards International and Emerging Markets, and expect these two regions to represent around 70% of net written premiums in the next five years. Organic growth has continued to be supported by targeted acquisitions and in 2010, we have been more active than usual completing 11 deals. Our primary focus in 2011 will be integrating and driving value from these recent acquisitions.

We remain committed to delivering sustainable profitable performance and will maintain our tight management grip and underwriting discipline. The continued resilience of the underwriting result reflects our diversified portfolio and prudent reinsurance and conservative reserving policies. As it stands today, and assuming a return to more normal levels of weather losses, in 2011 we expect to deliver a COR for the Group of better than 95%.

We will also continue to operate a high quality, low risk investment strategy and continue to take action to mitigate the impact of the low yield environment on the investment result. In 2011, as it stands today we expect investment income to be around £550m and total gains to be around £50m.

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 5.70p (2009: 5.33p).

Andy Haste, Group CEO, RSA

OTHER FINANCIAL INFORMATION

- Rating movements

Rate movements achieved for risks renewing in December 2010 versus comparable risks renewing in December 2009 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		Motor	Commercial	
	Motor	Household		Liability	Property
	%	%	%	%	%
Scandinavia	3	7	3	2	6
Canada	5	12	2	1	3
UK	19	5	10	5	4

- Other activities

The analysis of the other activities result is as follows:

	12 Months 2010 £m	12 Months 2009 £m	Movement
Central expenses	(63)	(60)	(5)%
Investment expenses and charges	(33)	(30)	(10)%
Other operating activities	(44)	(42)	(5)%
Other activities	(140)	(132)	(6)%

Other activities, which comprise central expenses, investment expenses and other operating activities are £140m (2009: £132m) and are up by 6% on the prior year. Central expenses of £63m increased by 5% mainly due to £5m of costs associated with the implementation of Solvency II. Investment expenses of £33m are up by 10% on 2009. Other operating activities of £44m reflect the ongoing investments in our associate in India and Direct operations in Central and Eastern Europe. As reported previously, we will continue to charge the investment in Russia and the Czech Republic to other activities. In 2010, this investment was £30m compared with £29m in 2009 and we would expect this to reduce to around £25m in 2011.

- Investment result

The analysis of the investment results is as follows:

	12 Months 2010 £m	12 Months 2009 £m	Movement
Bonds	452	466	(3)%
Equities	55	58	(5)%
Cash and cash equivalents	8	17	(53)%
Land and buildings	23	21	10%
Other	31	33	(6)%
Investment income	569	595	(4)%
Realised gains	68	69	(1)%
Unrealised gains/(losses), impairments and foreign exchange	(5)	(41)	88%
Total gains	63	28	125%
Unwind of discount including ADC	(94)	(100)	6%
Investment result	538	523	3%

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 £538m (2009: £523m) and includes investment income of £569m and total gains of £63m, both ahead of original guidance. The unwind of discount is £94m (2009: £100m).

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 which now form 53% of the fixed income portfolio. In addition, we have continued to increase our holding of higher-yielding equities and modestly extended the duration of new bond purchases to take account of the higher yield on offer for longer dated bonds.

The small decline in investment income to £569m reflects the lower yield environment, partially offset by management 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 3.8% (2009: 3.9%), with a 0.8% return on cash assets and 4.0% on the remainder of the portfolio.

Total gains of £63m (2009: £28m) predominantly includes gains of £47m on sales of equities as we moved a measured proportion of the portfolio into higher-yielding equities and gains of £27m on property, partially offset by losses of £9m on the equity hedges.

As it stands today and with the actions we are taking, we expect investment income for 2011 to be around £550m and total gains to be around £50m.

The table below sets out the key movements in the investment portfolio during 2010:

	Value 31/12/2009 £m	Foreign Exchange £m	Mark to Market £m	Other Movements £m	Value 31/12/2010 £m
Government Bonds	5,310	177	(17)	(130)	5,340
Non Government Bonds	6,198	194	(58)	(239)	6,095
Cash	996	28	-	293	1,317
Equities	987	16	114	169	1,286
Property	391	(3)	16	(30)	374
Prefs & CIVs	265	12	29	(42)	264
Other	140	1	1	(29)	113
Total	14,287	425	85	(8)	14,789

The investment portfolio increased by 4% over the year to £14,789m, with foreign exchange of £425m and mark to market movements of £85m partially offset by other negative movements of £8m. The mark to market movement reflects the appreciation of equities and preference shares and Collective Investment Vehicles (CIVs) offset by negative movements on bonds. The foreign exchange movement reflects the depreciation of Sterling against the Canadian Dollar and the Swedish Krona. Other movements primarily reflect net purchases and sales of securities.

At 31 December 2010, unrealised gains in the statement of financial position were £580m (31 December 2009: £509m).

86% 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 98% of the bond portfolio investment grade, and 78% rated AA or above. The bond holdings are well diversified, with 77% invested in currencies other than Sterling, and 53% invested in non government bonds (31 December 2009: 54%). The average duration for the portfolio is 3.1 years (2009: 3.0 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, Italy, Portugal and Spain at the year end was £209m, just over 1% of the total portfolio. Of this exposure, the majority is held to back the liabilities of our European insurance operations, with £119m in Ireland and £43m in Italy. Additionally, we hold £41m and £6m of Spanish and Greek government debt respectively.

The non government bond portfolio of £6.1bn comprises £1.8bn of Scandinavian Mortgage Bonds, £2.4bn of other financials and £1.9bn of non financials. The Scandinavian Mortgage Bonds portfolio comprises £1.0bn of Swedish bonds, which are all rated AAA, and £0.8bn of Danish bonds, which are principally rated AAA. The Scandinavian Mortgage Bond portfolio has an average LTV of around 60%. Within the £2.4bn of other financial exposure, £0.5bn is in supranational and sovereign backed entities, £0.3bn in other non bank financials and £1.6bn in banks. Of the £1.6bn in banks, just £243m of this is subordinated debt and only £57m is Tier 1. Across the peripheral European countries of Greece, Ireland, Italy, Portugal and Spain, we hold only £105m of senior and £7m of subordinated bank debt.

Equities (excluding preference shares and CIVs backed by fixed income and cash) comprise 9% of the portfolio. We continue to hedge our equity portfolio, with around 61% of the exposure hedged with a rolling programme of put and call options, providing protection down to a FTSE level of 4,250. The commercial property portfolio is 3% of investment assets and comprises high quality commercial properties. Cash balances increased by around £0.3bn to £1.3bn at the year end as we held additional liquidity to meet claims following the Chile earthquake and to fund the GCAN acquisition.

Going forward, we will continue to take action to enhance the yield of the funds including the continued purchase of high quality non government bonds if market conditions are appropriate.

OTHER INFORMATION

Capital position

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

	31 December 2010 Requirement £bn	31 December 2010 Surplus £bn	31 December 2009 Surplus £bn
Insurance Groups Directive	1.2	1.5	1.7

The IGD surplus is £1.5bn (31 December 2009: £1.7bn) and coverage over the IGD requirement remains strong at 2.3 times (31 December 2009: 2.4 times). A 30% fall in the FTSE from the 31 December level of around 5,900 would reduce the IGD surplus by an estimated £0.3bn.

On Solvency II, we remain supporters of the principles but frustrated by the unnecessary complexity of the calculations and reporting requirements and we are concerned as to whether the ultimate benefits will be worth the effort. However, we continue to make good progress and remain at the forefront of implementation. Having completed the FSA's pilot programme and had our pre-application qualifying criteria approved, we are now in the pre-application phase of the internal model approval process. We have also completed QIS5 and participated in a number of regulatory colleges.

At 31 December 2010, the Group had surplus economic capital of around £1.1bn (31 December 2009: £1.8bn). The economic capital is our own assessment of the capital required to meet our obligations given the Group's risk profile. Our model is forward looking and compares the economic value of our assets with the total resources required in a range of scenarios, calibrated to a defined risk tolerance. 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 which assumes three years of new business followed by a multi-year run-off. 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 model is impacted by changes in investment yields and M&A. On acquisitions, deals reduce the economic capital surplus as goodwill is a non-qualifying asset and we only benefit from three years of new business before assuming the acquired entity is closed and put into run-off. Of the £0.7bn movement in the surplus during 2010, £0.2bn is due to the downward movement in the risk free yield curves and around £0.4bn is due to the impact of goodwill and intangibles on acquisitions. As the model is forward looking, it includes the impact of the GCAN acquisition, which only completed in January 2011. Since the year end, there has been a pick up in risk free yields and adjusting the model for this assumption in isolation, the 2010 surplus would increase to £1.2bn.

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.

The Group was upgraded to 'A' (positive outlook) by Standard & Poor's in December 2010 and is currently rated 'A2' (stable outlook) by Moody's and 'A' (stable outlook) by AM Best.

Return on equity

Underlying return on opening equity is 10.3% (2009: 12.7%), with the movement on the prior year reflecting the impact of the adverse weather and Chile earthquake on the underwriting result and the expected lower level of investment income. The underlying return on opening equity is calculated as the profit after tax attributable to ordinary shareholders from continuing operations, excluding acquisition costs, 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 9.9% for 2010 compared with 13.4% in 2009.

Excluding the impact of the worse than normal weather losses the underlying return was 16.0% on opening equity and 15.3% on average shareholders' funds.

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 96.4% was based on net written premiums of £7,455m and net earned premiums of £7,179m.

Net asset value per share

The net asset value per share at 31 December 2010 excluding IAS 19 was 108p (31 December 2009: 106p) and including the pension deficit was 104p (31 December 2009: 99p). At 18 February 2011, the net asset value per share excluding IAS 19 was estimated at 106p and including the pension deficit was estimated at 103p.

The net asset value per share at 31 December 2010 was based on total shareholders' funds of £3,766m, adjusted by £125m for preference shares, and shares in issue at the period end of 3,489,331,046 (excluding those held in the ESOP and SIP 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 3,441,243,483 and 3,463,744,232 respectively (excluding those held in ESOP & SIP trusts). The number of shares in issue at 31 December 2010 was 3,489,331,046 (excluding those held in ESOP and SIP trusts).

Dividend

The directors will recommend at the Annual General Meeting, to be held on 23 May 2011, that a final ordinary dividend of 5.70p (2009: 5.33p) per share be paid. This, together with the interim dividend of 3.12p paid on 26 November 2010, will make a total distribution for the year of 8.82p (2009: 8.25p).

The final dividend will be payable on 3 June 2011 to shareholders on the register at the close of business on 4 March 2011. Shareholders will be offered a scrip dividend alternative. Scrip dividend mandates need to be received by Equiniti Limited by 5 May 2011. The first preference share dividend for 2011 will be payable on 1 April 2011 to holders of such shares on the register at the close of business on 4 March 2011.

Related party transactions

In 2010, 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 0857 or International dial in: +44 (0) 208 515 2302. 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 12 May 2011.

The half yearly 2011 results will be announced on 4 August 2011.

MANAGEMENT BASIS OF REPORTING

The following analysis on pages 11 to 18 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 19 to 22. Financial information on a statutory basis is included on pages 24 to 32.

SUMMARY CONSOLIDATED INCOME STATEMENT

MANAGEMENT BASIS

	12 Months 2010 £m	12 Months 2009 £m
Net written premiums	7,455	6,737
Underwriting result	238	386
Investment income	569	595
Realised gains	68	69
Unrealised gains/(losses), impairments and foreign exchange	(5)	(41)
Unwind of discount including ADC	(94)	(100)
Investment result	538	523
Insurance result	776	909
Other activities	(140)	(132)
Operating result	636	777
Interest costs	(118)	(116)
Amortisation	(29)	(25)
Reorganisation costs	(5)	(75)
Acquisitions and disposals	(10)	(7)
Profit before tax	474	554
Taxation	(119)	(135)
Profit after tax	355	419

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

Basic	9.8p	12.2p
Diluted	9.7p	12.1p

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

Basic	10.8p	14.4p
Diluted	10.7p	14.3p

SUMMARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION

MANAGEMENT BASIS

	31 December 2010 £m	Restated 31 December 2009 £m
Assets		
Goodwill and other intangible assets	1,209	969
Property and equipment	287	284
Associated undertakings	38	31
Investments		
Investment property	374	391
Equity securities	1,550	1,252
Debt and fixed income securities	11,435	11,508
Other	113	140
Total investments - management basis	13,472	13,291
Reinsurers' share of insurance contract liabilities	2,652	1,795
Insurance and reinsurance debtors	3,137	2,812
Other debtors and other assets	981	988
Cash and cash equivalents	1,317	996
Assets associated with continuing operations	23,093	21,166
Assets held for sale*	11	201
Total assets	23,104	21,367
Equity and liabilities		
Equity		
Shareholders' funds	3,766	3,491
Non controlling interests	129	97
Total equity	3,895	3,588
Loan capital	1,315	1,317
Total equity and loan capital	5,210	4,905
Liabilities (excluding loan capital)		
Insurance contract liabilities	15,140	13,730
Insurance and reinsurance liabilities	656	493
Borrowings	298	295
Provisions and other liabilities	1,800	1,781
Liabilities associated with continuing operations	17,894	16,299
Liabilities held for sale*	-	163
Total liabilities (excluding loan capital)	17,894	16,462
Total equity and liabilities	23,104	21,367

These summary consolidated financial statements have been approved for issue by the Board of Directors on 23 February 2011.

The 2009 figures have been restated for a change in the presentation of deferred acquisition costs. Further information can be found in note 1.

* Assets and liabilities held for sale in 2010 relate to properties in Canada and Scandinavia and in 2009 to the British Engine legacy business and properties in the UK and Scandinavia.

OTHER INFORMATION

MANAGEMENT BASIS

Movement in net assets

	Shareholders' funds	Non controlling interests	Loan capital	Net assets
	£m	£m	£m	£m
Balance at 1 January 2010	3,491	97	1,317	4,905
Profit after tax	346	9	-	355
Exchange gains net of tax	52	1	-	53
Fair value gains net of tax	46	-	-	46
Pension fund actuarial gains net of tax	58	-	-	58
Amortisation and repayment of loan capital	-	-	(2)	(2)
Share issue	67	23	-	90
Changes in shareholders' interests in subsidiaries	(24)	3	-	(21)
Share based payments	29	-	-	29
Prior year final dividend	(182)	(4)	-	(186)
Current year interim dividend	(108)	-	-	(108)
Preference dividend	(9)	-	-	(9)
Balance at 31 December 2010	3,766	129	1,315	5,210

Net assets have increased by £305m to £5,210m. This primarily reflects the profit after tax for the period of £355m, exchange gains of £53m, pension fund actuarial gains of £58m and fair value gains of £46m, offset by dividends in 2010 of £303m.

Pension fund position

The table below provides a reconciliation of the Group's pension fund position (net of tax) from 1 January 2010 to 31 December 2010.

	UK £m	Other £m	Group £m
Pension fund at 1 January 2010	(224)	(38)	(262)
Actuarial gains/(losses)	84	(26)	58
Asset reallocation funding	36	-	36
Other movements	18	8	26
Pension fund at 31 December 2010	(86)	(56)	(142)

The deficit on the Group's pension schemes as at 31 December 2010 is £142m compared with a deficit of £262m at the start of the year. The movement primarily reflects changes in market driven assumptions offset by a higher than expected return on assets for the UK schemes.

In line with decreasing corporate bond yields, the discount rate for the UK schemes has decreased from 5.8% to 5.5% and the general inflation assumption has been reduced from 3.3% to 3.1%, due in part to the change in basis from RPI to CPI for increases on a portion of the future benefit. The inflation assumption for pension increases is 2.9% (2009: 3.1%) reflecting the cap on annual pension increases.

The increase in the deficit of the Group's pension schemes outside of the UK of £18m is primarily driven by a reduction in the Canadian discount rate from 6.5% to 5.7%, accounting for £25m of the increase, partially offset by higher than expected gains on assets of £8m.

Cashflow – management basis

	12 Months	12 Months
	2010	2009
	£m	£m
Operating cashflow	516	490
Tax paid	(215)	(180)
Interest paid	(115)	(96)
Group dividends	(246)	(195)
Dividend to non controlling interests	(2)	(3)
Net cashflow	(62)	16
Issue of share capital	27	11
Pension asset reallocation funding	(50)	(40)
Net movement of debt	(1)	21
Corporate activity	(167)	(101)
Cash movement	(253)	(93)
Represented by:		
Movement in cash and cash equivalents	189	(460)
(Sales)/purchases of other investments	(442)	367
	(253)	(93)

The Group's operating cashflows are £516m, an increase of 5% over 2009 driven by a significant improvement in insurance cashflows offset by reduced, but still strong, investment cashflows. Insurance cashflows improved by £143m to an outflow of £56m due to 8% growth in premium cashflows across the Group and tightly managed cash expenses. Investment cashflows are down 17% but remain strong at £572m, with the reduction reflecting the current low yield environment and cash outflows on equity hedges of £23m (2009: cash inflows of £60m) due to the appreciation of the equity markets.

As reported at the half year, the increase in tax paid to £215m is primarily due to Canada, where tax is paid in monthly instalments which are based on the previous year's profits, with a true-up at the start of the following year for the actual results. Our 2009 Canadian profits were significantly above 2008, resulting in a true-up payment of £40m in the first half of this year.

Interest paid of £115m is £19m higher than the prior year, reflecting a full year's interest paid on the Sterling bond issued in May 2009.

Dividends paid are higher by £50m reflecting the 7% increase in the 2009 final dividend and the lower take up in the scrip.

In terms of the pension scheme, as previously reported, we have completed the triennial valuation and agreed funding for the next three years. The annual contributions will not be materially different from current levels.

Corporate activity represents the completion of the sale of British Engine and acquisitions in International and Emerging Markets during 2010. Regulatory approval for the acquisition of GCAN was received on 5 January 2011 and therefore, the settlement of this transaction is not included in the corporate activity above.

Loss development tables

The table below presents the general insurance claims provisions net of reinsurance for the accident years 2001 and prior, through to 2010. 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 estimated provision for ultimate incurred losses changes as more information becomes known about the actual losses for which the initial provisions were set up and as the rate of exchange changes. The 2010 redundancy of £335m represents the claims development of earlier accident years in the current accounting period, net of reinsurance, made up of favourable experience of £366m from 2008 and earlier accident years across all regions offset by £31m adverse development from 2009. There was another strong contribution from International, particularly from Swedish Personal lines and Motor and General Liability in Canada, while in the UK, positive run-off is primarily driven by Commercial Property, Liability and Legacy. The adverse development of £31m in the 2009 accident year includes the £25m reserve strengthening for bodily injury in the UK, of which £22m relates to Commercial Motor, the action taken to exit a number of unprofitable UK Motor schemes and continued remediation in Italy. The total discounting at the end of 2010, net of reinsurance, is £660m representing a decrease of £27m in the year. In the UK and 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, net of reinsurance, are £575m.

	2001 and prior £m	2002 £m	2003 £m	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	Total £m
Estimate of cumulative claims											
At end of accident year	7,592	2,672	2,454	2,301	2,466	2,490	2,588	2,644	2,530	2,699	
1 year later	7,865	2,621	2,489	2,164	2,342	2,472	2,593	2,651	2,561		
2 years later	7,955	2,615	2,400	1,972	2,253	2,374	2,566	2,639			
3 years later	8,311	2,590	2,287	1,885	2,178	2,289	2,501				
4 years later	8,356	2,505	2,225	1,816	2,095	2,235					
5 years later	8,850	2,482	2,164	1,769	2,032						
6 years later	8,790	2,448	2,142	1,734							
7 years later	8,716	2,412	2,084								
8 years later	8,665	2,382									
9 years later	8,616										
2010 movement	49	30	58	35	63	54	65	12	(31)		335
Claims paid											
1 year later	2,397	1,107	897	725	964	1,001	1,163	1,321	1,283		
2 years later	1,207	355	301	263	296	354	371	392			
3 years later	1,060	268	212	185	171	193	270				
4 years later	572	173	111	143	143	175					
5 years later	412	95	92	90	103						
6 years later	266	75	64	72							
7 years later	290	54	51								
8 years later	234	58									
9 years later	165										
Cumulative claims paid	6,603	2,185	1,728	1,478	1,677	1,723	1,804	1,713	1,283		
Current year provision before discounting	2,013	197	356	256	355	512	697	926	1,278	2,699	9,289
Exchange adjustment to closing rates											137
Discounting											(660)
Annuity reserves											575
Present value recognised in the statement of financial position											9,341

Asbestos reserves

The technical provisions include £857m (31 December 2009: £920m) for asbestos in the UK comprising £783m (31 December 2009: £822m) for UK risks and £74m (31 December 2009: £98m) for US risks written in the UK. The reduction in the reserve net of reinsurance of £39m compared with 2009 for UK risks, primarily reflects the impact of claims settled in the year and the reduction of £24m for US risks written in the UK mainly reflects the reinsurance of the liabilities not included in the 2009 sale of the British Engine legacy business, as well as the impact of claims paid in the year. As in previous years, and as a standard part of our reserving practices, these asbestos provisions have been reviewed by external consultants. These provisions can be analysed by survival ratio. Survival ratio is an industry standard measure of a company's reserves, expressing the number of years that carried reserves will be available if the recent year payment or notification levels continue. The following table outlines the asbestos provisions as at 31 December 2010 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	857	783	74
Net of discount	434	387	47
Survival ratios (Gross of discount) - On payment			
One year	28	35	16
Three year average	31	35	20
Survival ratios (Gross of discount) - On notifications			
One year	42	44	28
Three year average	35	39	17

Survival ratios are broadly in line with last year. One year average ratios are inherently more volatile and impacted by the size and timing of claims payments in the year, with the three year average providing a more stable benchmark.

REGIONAL ANALYSIS OF INSURANCE OPERATIONS

12 MONTHS TO 31 DECEMBER

	Net written premiums		Increase as reported %	Increase at constant exchange %
	2010 £m	2009 £m		
International	3,536	3,249	9	5
UK	2,925	2,632	11	11
Emerging Markets	964	833	16	10
Group Re	30	23	30	30
Total Group	7,455	6,737	11	8

	Underwriting result		Investment result		Insurance result	
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m
International	325	282	244	245	569	527
UK	(95)	75	244	238	149	313
Emerging Markets	12	29	53	45	65	74
Group Re	(4)	-	(3)	(5)	(7)	(5)
Total Group	238	386	538	523	776	909

	Operating ratios					
	2010		Combined %	2009		
Claims %	Expenses %	Claims %		Expenses %	Combined %	
International	67.9	22.7	90.6	68.6	23.1	91.7
UK	71.5	30.7	102.2	63.7	34.3	98.0
Emerging Markets	56.0	42.7	98.7	54.3	40.8	95.1
Total Group	68.0	28.4	96.4	65.0	29.6	94.6

INVESTMENT RESULT BY REGION

12 MONTHS TO 31 DECEMBER 2010

	International £m	UK £m	Emerging Markets £m	Group Re £m	Group £m
Investment income	258	243	47	21	569
Realised gains	31	30	6	1	68
Unrealised gains/(losses), impairments and foreign exchange	(3)	(2)	-	-	(5)
Unwind of discount including ADC	(42)	(27)	-	(25)	(94)
Investment result	244	244	53	(3)	538

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.

INTERNATIONAL INSURANCE OPERATIONS

12 MONTHS TO 31 DECEMBER

	Net written premiums		Underwriting result		Operating ratio	
	2010 £m	2009 £m	2010 £m	2009 £m	2010 %	2009 %
Personal						
Scandinavia	1,007	944	211	204	78.8	78.7
Canada	932	778	49	34	94.2	95.3
Other Europe	369	341	(8)	(55)	101.3	117.1
Total Personal	2,308	2,063	252	183	88.5	91.2
Commercial						
Scandinavia	717	725	43	38	94.8	95.8
Canada	313	243	31	29	88.3	87.5
Other Europe	198	218	(1)	32	102.2	86.8
Total Commercial	1,228	1,186	73	99	94.6	92.7
Total						
Scandinavia	1,724	1,669	254	242	85.4	86.2
Canada	1,245	1,021	80	63	92.8	93.5
Other Europe	567	559	(9)	(23)	101.5	105.0
Total International	3,536	3,249	325	282	90.6	91.7

UNITED KINGDOM INSURANCE OPERATIONS

12 MONTHS TO 31 DECEMBER

	Net written premiums		Underwriting result		Operating ratio	
	2010 £m	2009 £m	2010 £m	2009 £m	2010 %	2009 %
Personal						
Household	569	522	(26)	42	104.5	91.9
Motor	573	493	(31)	(15)	105.0	103.8
Other	99	80	3	1	95.4	97.2
Total UK Personal	1,241	1,095	(54)	28	103.9	97.4
Commercial						
Property	604	567	(38)	8	104.2	99.9
Liability	296	288	13	(14)	94.3	107.7
Motor	508	428	(48)	2	109.7	101.1
Other	276	254	32	51	89.6	77.7
Total UK Commercial	1,684	1,537	(41)	47	101.1	98.5
Total UK	2,925	2,632	(95)	75	102.2	98.0

ESTIMATION TECHNIQUES, RISKS, UNCERTAINTIES AND CONTINGENCIES

Introduction

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

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

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

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

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

Estimation techniques

Claims and unexpired risks provisions are determined based upon previous claims experience, knowledge of events and the terms and conditions of the relevant policies and on interpretation of circumstances. Particularly relevant is experience with similar cases and historical claims payment trends. The approach also includes the consideration of the development of loss payment trends, the potential longer term significance of large events, the levels of unpaid claims, legislative changes, judicial decisions and economic 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
- 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 provision for losses and loss adjustment expenses are subject to close scrutiny both within the Group's business units and at Group Corporate Centre. In addition, for major classes where the risks and uncertainties inherent in the provisions are greatest, regular and ad hoc detailed reviews are undertaken by advisers who are able to draw upon their specialist expertise and a broader knowledge of current industry trends in claims development. As an example, the Group's exposure to asbestos and environmental pollution is examined on this basis. The results of these reviews are considered when establishing the appropriate levels of provisions for losses and loss adjustment and unexpired periods of risk.

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

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

Uncertainties and contingencies

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

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

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

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

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

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

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

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

Asbestos and environmental claims

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

Factors contributing to this higher degree of uncertainty include:

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

Potential change in discount rate for lump-sum damages awards

Legislative changes may affect the Group's liability in respect of unsettled claims in the use of predetermined factors used by courts to calculate compensation claims. For example, in the UK, standard formulae are used as an actuarial measure by the courts to assess lump sum damages awards for future losses (typically loss of earnings arising from personal injuries and fatal accidents). The calibration of these standard formulae can be updated by the UK Government and the Lord Chancellor is currently reviewing the discount rate to be applied in determining the appropriate settlements. A reduction in the prescribed discount rate would increase the value of future claims settlements.

Acquisitions and disposals

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

These clauses are customary in such contracts and may from time to time lead to 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 cashflows for any period.

Reinsurance

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

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

Investment risk

The Group is exposed to market risk and credit risk on its invested assets. Market risk includes the risk of potential losses from adverse movements in market rates and prices including interest rates, equity prices, property prices and foreign 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. The Group's insurance investment portfolios are concentrated in listed securities with very low levels of exposure to assets without quoted market prices. The Group uses model based analysis to verify asset values when market values are not readily available.

Rating environment

The ability of the Group to write certain types of insurance business is dependent on the maintenance of the appropriate credit ratings from the rating agencies. The Group has the objective of maintaining single 'A' ratings. At the present time the ratings are 'A' (positive outlook) from S&P, improved from 'A' (stable outlook) in December 2010, 'A' (stable outlook) from AM Best and 'A2' (stable outlook) from Moody's. A worsening in the ratings could have an adverse impact on the ability of the Group to write certain types of general insurance business.

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

Changes in foreign exchange rates may impact the Group's results

The Group publishes consolidated financial statements in Pounds Sterling. Therefore, fluctuations in exchange rates used to translate other currencies, particularly other European currencies and the Canadian Dollar, into Pounds Sterling will impact the reported consolidated financial condition, results of operations and cashflows from period to period. These fluctuations in exchange rates will also impact the Pound Sterling value of, and the return on, the Group's investments.

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

Regulatory environment

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

The new solvency framework for insurers being developed by the EU, referred to as 'Solvency II', is intended in the medium term to achieve greater harmonisation of approach across EU member states to assessing capital resources and requirements. There will be continued uncertainty until all the rules are finalised and the Group is actively participating in shaping the outcome through its 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 2010 (audited) £m	12 Months 2009 (audited) £m
Income		
Gross written premiums	8,448	7,744
Less: reinsurance premiums	(993)	(1,007)
Net written premiums	7,455	6,737
Change in the gross provision for unearned premiums	(250)	(34)
Less: change in provision for unearned premiums, reinsurers' share	(26)	50
Change in provision for unearned premiums	(276)	16
Net earned premiums	7,179	6,753
Net investment return	629	616
Other operating income	116	89
Total income	7,924	7,458
Expenses		
Gross claims incurred	(6,700)	(4,999)
Less: claims recoveries from reinsurers	1,816	612
Net claims and benefits	(4,884)	(4,387)
Underwriting and policy acquisition costs	(2,171)	(2,066)
Unwind of discount including ADC	(94)	(100)
Other operating expenses	(177)	(210)
Total expenses	(7,326)	(6,763)
Results of operating activities	598	695
Finance costs	(118)	(116)
Loss on disposal	(1)	(7)
Net share of loss after tax of associates	(5)	(18)
Profit before tax	474	554
Income tax expense	(119)	(135)
Profit after tax	355	419
Attributable to:		
Equity holders of the Company	346	418
Non controlling interests	9	1
Profit after tax	355	419
Earnings per share on profit attributable to the ordinary shareholders of the Parent Company:		
Basic	9.8p	12.2p
Diluted	9.7p	12.1p

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 2010 (audited) £m	12 Months 2009 (audited) £m
Profit after tax	355	419
Exchange gains/(losses) net of tax	53	(108)
Fair value gains net of tax	46	184
Pension fund actuarial gains/(losses) net of tax	58	(691)
Other comprehensive income/(expenses) for the period, net of tax	157	(615)
Total comprehensive income/(expense) for the period	512	(196)
Attributable to:		
Equity holders of the Company	502	(193)
Non controlling interests	10	(3)
	512	(196)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
STATUTORY BASIS

	Shareholders' funds £m	Non controlling interests £m	Total equity £m
Balance at 1 January 2009	3,839	81	3,920
Total comprehensive expense for the period	(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
Total comprehensive income for the period	502	10	512
Share issue	67	23	90
Changes in shareholders' interests in subsidiaries	(24)	3	(21)
Share based payments	29	-	29
Prior year final dividend	(182)	(4)	(186)
Current year interim dividend	(108)	-	(108)
Preference dividend	(9)	-	(9)
Balance at 31 December 2010	3,766	129	3,895

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
STATUTORY BASIS

	31 December 2010 (audited) £m	Restated 31 December 2009 (audited) £m
Assets		
Goodwill and other intangible assets	1,209	969
Property and equipment	287	284
Investment property	374	391
Investment in associates	38	31
Financial assets	13,098	12,900
Total investments	13,510	13,322
Reinsurers' share of insurance contract liabilities	2,652	1,795
Insurance and reinsurance debtors	3,137	2,812
Current tax assets	33	28
Deferred tax assets	204	208
Other debtors and other assets	744	752
	981	988
Cash and cash equivalents	1,317	996
	23,093	21,166
Assets held for sale*	11	201
Total assets	23,104	21,367
Equity and liabilities		
Equity		
Shareholders' funds	3,766	3,491
Non controlling interests	129	97
Total equity	3,895	3,588
Liabilities		
Loan capital	1,315	1,317
Insurance contract liabilities	15,140	13,730
Insurance and reinsurance liabilities	656	493
Borrowings	298	295
Current tax liabilities	158	198
Deferred tax liabilities	42	57
Provisions	389	542
Other liabilities	1,211	984
Provisions and other liabilities	1,800	1,781
	19,209	17,616
Liabilities held for sale*	-	163
Total liabilities	19,209	17,779
Total equity and liabilities	23,104	21,367

These condensed consolidated financial statements have been approved for issue by the Board of Directors on 23 February 2011.

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

The 2009 figures have been restated for a change in the presentation of deferred acquisition costs. Further information can be found in note 1.

* Assets and liabilities held for sale in 2010 relate to properties in Canada and Scandinavia and in 2009 to the British Engine legacy business and properties in the UK and Scandinavia.

CONDENSED CONSOLIDATED STATEMENT OF CASHFLOWS

STATUTORY BASIS

	12 Months 2010 (audited) £m	12 Months 2009 (audited) £m
Cashflows from operations	96	(1)
Tax paid	(215)	(180)
Investment income	578	617
Interest paid	(115)	(96)
Dividends received from associates	2	1
Pension asset reallocation funding	(50)	(40)
Net cashflows from operating activities	296	301
Proceeds from sales or maturities of:		
Financial assets	4,120	4,031
Investment property	78	-
Property and equipment	-	7
Investments in subsidiaries (net of cash disposed of)	(74)	-
Purchase or settlement of:		
Financial assets	(3,720)	(4,388)
Investment property	(39)	(10)
Property and equipment	(31)	(37)
Intangible assets	(133)	(98)
Investments in subsidiaries (net of cash acquired)	(86)	(100)
Net cashflows from investing activities	115	(595)
Proceeds from issue of share capital	27	11
Dividends paid to ordinary shareholders	(237)	(186)
Dividends paid to preference shareholders	(9)	(9)
Dividends paid to non controlling interests	(2)	(3)
Net movement in long term borrowings	-	27
Net movement in other borrowings	(1)	(6)
Net cashflows from financing activities	(222)	(166)
Net increase/(decrease) in cash and cash equivalents	189	(460)
Cash and cash equivalents at beginning of the year	1,105	1,614
Effect of exchange rate changes on cash and cash equivalents	20	(49)
Cash and cash equivalents at the end of the period	1,314	1,105

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 6

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

During the period, the Group has adopted IFRS 3 'Business Combinations (revised 2008)' and IAS 27 'Consolidated and Separate Financial Statements (revised 2008)'. This has been applied prospectively from 1 January 2010. The revised standards include a number of changes, the most significant to the financial statements being that costs incurred by the Group in connection with a business combination completed on or after 1 January 2010 are expensed in the income statement, and that 'minority interests' are now renamed 'non-controlling interests'.

Additionally the Group has changed the presentation of deferred acquisition costs in the statement of financial position. Deferred acquisition costs have previously been disclosed as a discrete asset but under the revised presentation are now deducted from the provision for unearned premiums within insurance contract liabilities. The revised presentation only affects the statement of the financial position.

There have been no other significant changes in accounting policy and methods of computation in the 12 months to 31 December 2010. A full list of accounting policies applied in these condensed financial statements can be found in the 2010 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 2010

	International	UK	Emerging Markets	Central Functions	Group
	£m	£m	£m	£m	£m
Net written premiums	3,536	2,925	964	30	7,455
Underwriting result	325	(95)	12	(4)	238
Investment result	244	244	53	(3)	538
Insurance result	569	149	65	(7)	776
Other activities	(12)	-	(46)	(82)	(140)
Operating result (management basis)	557	149	19	(89)	636
Amortisation					(29)
Reorganisation costs					(5)
Acquisitions					(9)
Add: net share of loss after tax of associates					5
Results of operating activities (per condensed consolidated income statement)					598
Combined operating ratio (%)	90.6	102.2	98.7	-	96.4
Segment assets (£m)	10,935	7,196	3,475	1,449	23,055

12 months ended 31 December 2009 (restated)

	International	UK	Emerging Markets	Central Functions	Group
	£m	£m	£m	£m	£m
Net written premiums	3,249	2,632	833	23	6,737
Underwriting result	282	75	29	-	386
Investment result	245	238	45	(5)	523
Insurance result	527	313	74	(5)	909
Other activities	(11)	1	(50)	(72)	(132)
Operating result (management basis)	516	314	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 (%)	91.7	98.0	95.1	-	94.6
Segment assets (£m)	10,111	7,265	2,379	1,380	21,135

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 2009 comparative data) has been prepared on the same basis as reported in the 2010 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 3,441,243,483 and 3,463,744,232 respectively (excluding those held in ESOP and SIP trusts). The number of shares in issue at 31 December 2010 was 3,489,331,046 (excluding those held in ESOP and SIP trusts).

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

During 2010, changes to claims reserve estimates made in prior years as a result of reserve development is included in the prior year profit of £267m (2009: £286m).

The Group pension fund deficit net of tax as at 31 December 2010 is £142m (31 December 2009: deficit of £262m). Further information on the pension fund deficit is included on page 13.

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

During 2010, 34,641,792 (2009: 28,969,400) ordinary shares were issued on the exercise of employee share options. The Company also issued 41,135,898 (2009: 61,767,996) ordinary shares under the scrip scheme approved by the shareholders at the 2009 Annual General Meeting.

6. Cashflow

	12 Months 2010 £m	12 Months 2009 £m
Cash and cash equivalents (as reported within the condensed consolidated statement of cashflows)	1,314	1,105
Add: bank overdrafts	3	-
Less: cash and cash equivalents reported in assets held for sale	-	(109)
Total cash and cash equivalents	1,317	996

7. Business combinations and other changes in the structure of the Group

Acquisition of subsidiaries

On 3 March 2010, the Group acquired 100% of the share capital of Assurance Goguen Champlain Insurance Incorporated in Canada. On 1 April 2010, the Group acquired 80.8% of the share capital of Sveland Sakförsäkring AB in Sweden. On 30 April 2010, the Group acquired 100% of the share capital of Al Ahlia Insurance Company SAOC in Oman. The acquisition was made by a subsidiary in which the Parent Company shareholders have a 34.5% equity interest. On 17 September 2010, the Group acquired 100% of the personal lines assets of Bradley's Insurance (Stittsville) Limited in Canada. On 17 September 2010, the Group acquired 100% of the assets of Hunt Insurance Brokers Limited in Canada. On 23 September 2010, the Group acquired 100% of the share capital of 123 Money Limited in Ireland. In addition, a number of business combinations were completed in Canada during the period. The acquisitions increase the Group's insurance activity in each of the countries. The total consideration paid was £146m and goodwill of £104m arose on these acquisitions.

Provisional fair values of identifiable assets acquired and liabilities assumed:

	£m
Investments	32
Intangible assets (excluding goodwill)	40
Other assets	74
Cash and cash equivalents	34
Insurance contract liabilities	(85)
Other liabilities	(53)
Net assets acquired	42
Cash consideration	120
Deferred consideration	15
Equity issued as consideration	11
Total consideration paid	146
Goodwill on acquisitions in 2010	104
Goodwill arising from purchases in earlier years	24
Goodwill on acquisitions	128

The goodwill arising from purchases in earlier years consists of the revision of the valuation of contingent consideration on acquisitions prior to 2009.

The aggregate fair value of the contingent liabilities recognised in the business combinations is less than £1m.

The fair value of the financial assets acquired includes premiums and insurance balances receivable of £51m, a reduction of £2m on their nominal value to account for balances that are expected to be uncollectable.

The total consideration for the business combinations is subject to agreement with the vendors of the valuation of certain assets and liabilities. The outcome of these arrangements could increase the aggregate consideration by £2m.

Deferred consideration includes consideration which is contingent on the financial performance of the acquired business. The fair value of this consideration is £11m, with the minimum possible payment being £nil and the maximum possible payment being £23m.

Equity consideration was issued by a subsidiary of the Group on acquisition of Al Ahlia Insurance Company SAOC. The fair value of the shares issued as consideration was determined by an independent market valuation.

Acquisition related costs for acquisitions concluded during the period (included in other operating expenses in the income statement for the year ended 31 December 2010) amounted to £3m.

On acquisition of Sveland Sakförsäkring AB, the Group recognised £1m of non controlling interests. The non controlling interest was measured as the proportionate share in the identifiable acquired net assets.

If the acquisitions had occurred on 1 January 2010, Group net written premiums and fee income for the year would have increased by £62m and the Group's profit after tax would have increased by £2m. The total net written premiums and fee income of the acquired entities since the acquisition dates included in the Group's net written premiums and fee income for the year is £28m. The total profit after tax of the acquired entities since the acquisition dates included in the Group's profit for the period is £nil.

The goodwill shown above 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 saving from expected synergies and economies of scale from central costs and the benefits of enhancing distribution channels.

Of the total goodwill recognised, £43m is expected to be deductible for income tax purposes.

Due to the timing of acquisitions the valuations disclosed above are provisional pending the completion of the review of valuation of certain assets and liabilities, in particular the actuarial review of insurance contract liabilities and the determination of the fair value of intangible assets.

	2010 £m	2009 £m
Gross goodwill		
At 1 January	508	344
Recognised in period	128	154
Disposals	(4)	-
Net foreign exchange rate movement	18	10
At 31 December	650	508

No material impairments have been recognised during the period or in prior periods.

Disposal of subsidiary

During the period the Group completed the disposal of British Engine Insurance Limited, which was classified as held for sale at the previous year end, at a loss of less than £1m.

Acquisition of subsidiaries after the reporting period

On 7 January 2011, the Group acquired 100% of the share capital of Glenstone Capital Incorporated in Canada, the holding company of GCAN Insurance Company.

Provisional fair values of identifiable assets acquired and liabilities assumed:

	£m
Investments	356
Intangible assets (excluding goodwill)	45
Other assets	200
Cash and cash equivalents	3
Insurance contract liabilities	(353)
Other liabilities	(113)
Net assets acquired	138
Cash consideration	221
Goodwill on acquisition	83

In addition to the acquisition of share capital, the Group acquired the rights to debt owed by Glenstone Capital Incorporated for consideration of £48m from their former parent.

The fair value of the financial assets acquired includes premiums and insurance balances receivable of £23m; there has been no deduction for amounts expected to be uncollectable.

Acquisition related costs (included in other operating expenses in the income statement for the year ended 31 December 2010) amounted to £3m.

The goodwill shown above arises from the premium paid to strengthen the Group's Commercial proposition in Canada by adding further technical expertise, geographic diversification and product breadth. Goodwill is further derived from the value of the workforce acquired, the growth from new customers and the significant anticipated synergies from reinsurance, capital and expense savings on integration into the Group.

The goodwill recognised on this acquisition is not expected to be deductible for income tax purposes.

The valuations disclosed above are provisional due to the timing of the acquisition and the acquisition accounting not yet having been finalised.

8. Dividends

	31 December 2010		31 December 2009	
	Per share p	Total £m	Per share p	Total £m
Ordinary dividend				
Final paid in respect of prior year	5.33	182	4.98	165
Interim proposed/paid in respect of current year	3.12	108	2.92	99
	8.45	290	7.90	264
Preference dividend		9		9
		299		273

9. Exchange rates

Local currency/£	12 Months 2010		12 Months 2009	
	Average	Closing	Average	Closing
Canadian Dollar	1.59	1.56	1.78	1.69
Danish Krone	8.68	8.70	8.36	8.37
Swedish Krona	11.12	10.52	11.93	11.53
Euro	1.17	1.17	1.12	1.13

10. Results for 2010

The financial information set out in this preliminary announcement does not constitute the statutory accounts for the year ended 31 December 2010. 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 23 May 2011. The independent auditors' report on the Group accounts for the year ended 31 December 2010 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

23 February 2011

George Culmer
Chief Financial Officer

23 February 2011

SHAREHOLDER INFORMATION

Registered Office and Group Corporate Centre

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

Group website

Our corporate website provides shareholders with a broad range of information about our heritage, our social and environmental responsibilities and investor information such as our financial statements, current and historic share prices, AGM materials, events, governance information and answers to frequently asked questions in respect of shareholder matters. You may visit our website at www.rsagroup.com.

Registrar

The Group's share register is maintained by Equiniti Limited. 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 reference 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 providers' costs may vary.) Telephone lines are open from 8.30am to 5.30pm Monday to Friday.

Annual General Meeting

Ordinary shareholders are invited to attend the Company's Annual General Meeting (AGM), which will be held at the Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE at 11.00am on 23 May 2011. Ordinary shareholders who are unable to attend the AGM to ask a question in person are invited to send the Chairman an email via the Company's website or to write to the Chairman at the Registered Office address above.

Electronic communications

Changes to legislation enables companies greater flexibility when communicating with shareholders and allows corporate websites to be used as a primary source of information. By communicating with shareholders electronically RSA is able to distribute messages to all its shareholders instantaneously. Shareholders who register for electronic communications are more informed, receiving emails when our results are released. Shareholders may elect to receive paper copies of the Annual Report and Accounts by writing to or telephoning the Registrar.

Scrip dividend scheme

RSA offers shareholders the opportunity to use their dividends to buy more ordinary shares in the Group by participating in the Group's Scrip Dividend Scheme. The Scheme applies to both interim and final dividends and enables shareholders to increase their holding in the Group without incurring dealing costs or stamp duty. If you wish to receive a scrip dividend instead of a cash dividend for future dividends on which a scrip alternative is offered, please contact Equiniti.

FINANCIAL CALENDAR

2 March 2011

Ex dividend date for the ordinary final dividend for 2010 and the first preference share dividend for 2011

4 March 2011

Record date for the ordinary final dividend for 2010 and the first preference dividend for 2011

10 March 2011

Announcement of the scrip dividend price for the ordinary final dividend for 2010

1 April 2011

Payment date for the first preference dividend for 2011

5 May 2011

Deadline for the receipt of scrip dividend mandates by Equiniti in relation to the ordinary final dividend for 2010

12 May 2011

Announcement of Q1 interim management statement

23 May 2011

2011 Annual General Meeting

3 June 2011

Payment of the ordinary final dividend for 2010