

# 2012 Preliminary Results

20 February 2013



**This presentation 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 or 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. Forward-looking statements in this presentation are current only as of the date on which such statements are made. 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 presentation should be construed as a profit forecast.**

## 2012 Preliminary Results - Summary

- Net written premiums up **5%** at constant FX to **£8.4bn**
- Underwriting result flat at **£375m**
- Combined operating ratio of **95.4%**, in line with guidance
- Investment income of **£515m**, slightly better than guidance
- Operating profit of **£684m**
- Profit before tax of **£479m** and profit after tax of **£351m**
- IGD surplus of **£1.2bn**, **1.9** times covered.
- Economic capital surplus of **£1.2bn** at 99.5% calibration
- Net asset value per share, excluding the pension deficit, of **107p**
- Earnings per share **9.5p**; return on equity **9.1%**

## Final dividend rebased to 3.90p per share

“After taking into consideration

- the Board’s **expectation of a prolonged low bond yield environment,**
- the need for **a more sustainable dividend going forward** and
- greater opportunities to continue to develop and **grow our businesses outside the UK** in the coming years.

“The Board has recommended a final dividend for 2012 which will be 33% lower than that of the prior year. The Board expects to recommend a similar change in the interim dividend for 2013 versus 2012. Thereafter the Group intends to pursue a progressive dividend policy in line with the anticipated underlying growth in earnings.”

# **Martin Scicluna**

Chairman

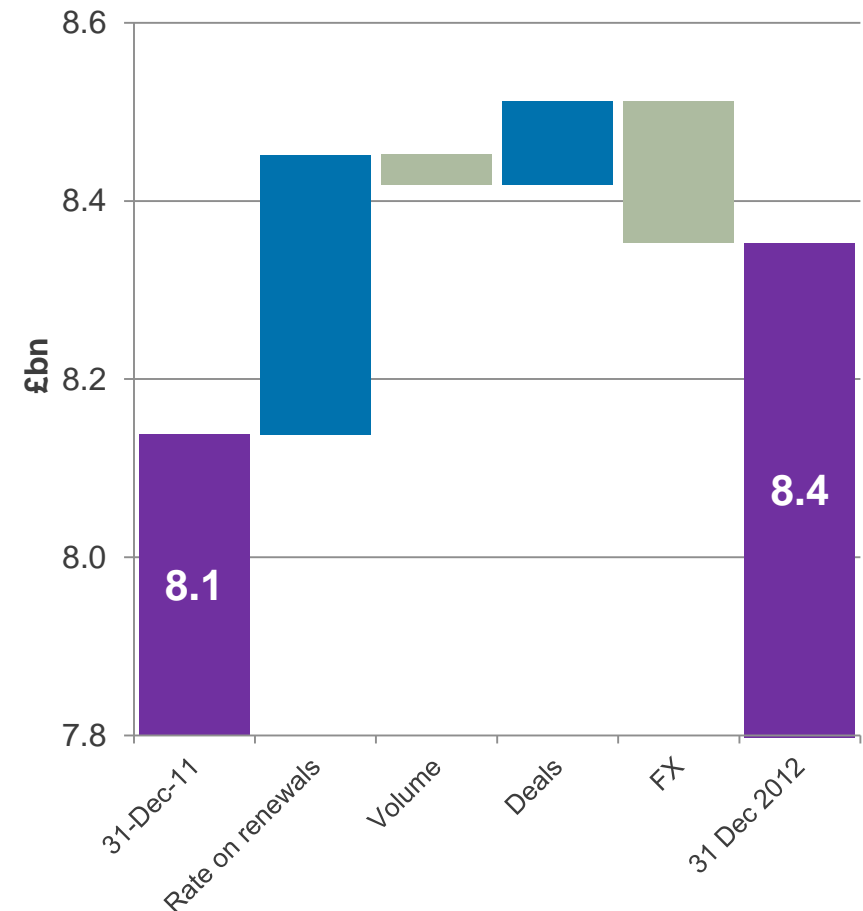
# **Richard Houghton**

Chief Financial Officer

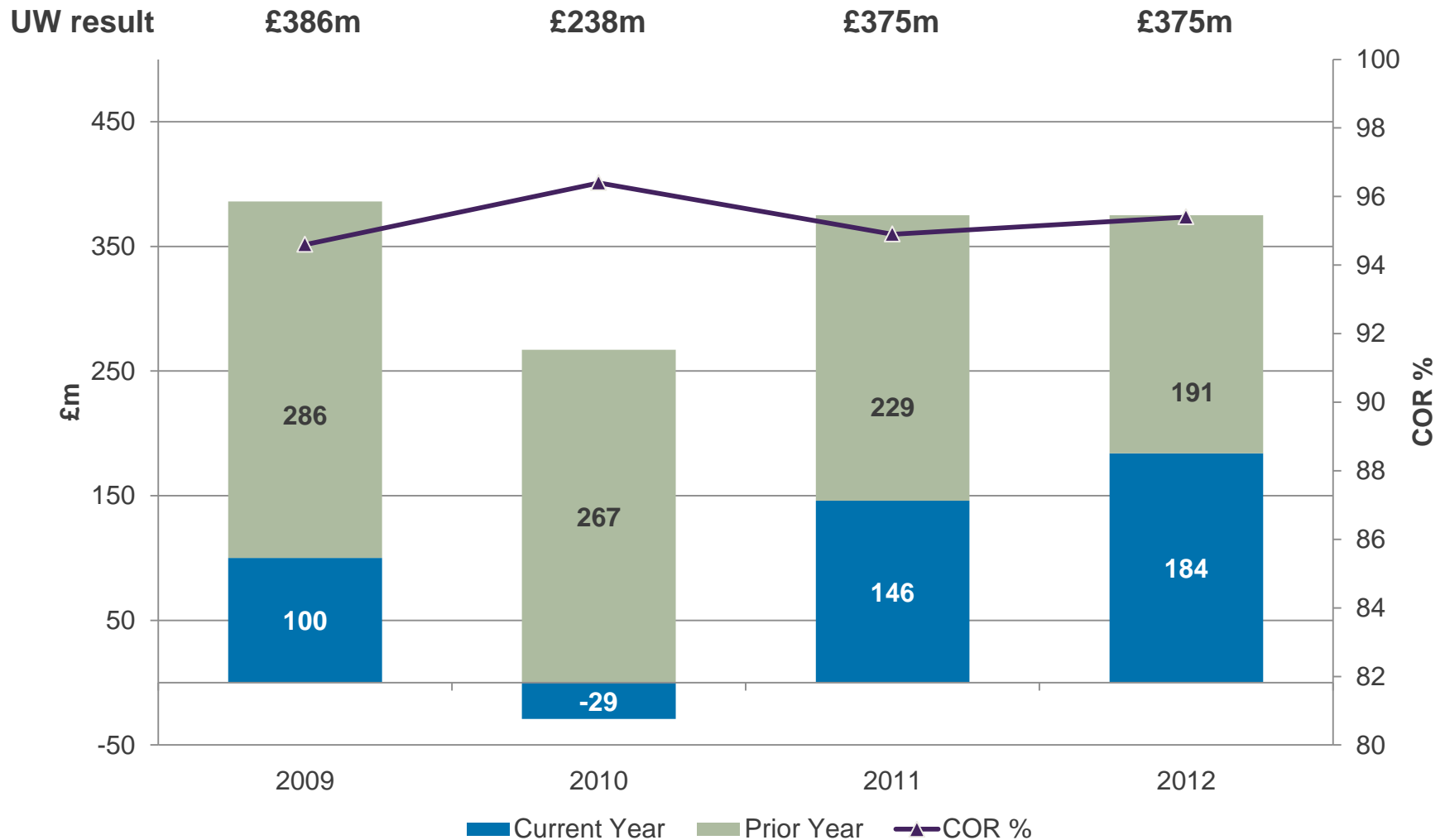
# Summary of financial performance

£m (unless otherwise stated)	2012	2011
Net written premiums	<b>8,353</b>	8,138
Underwriting result	<b>375</b>	375
COR (%)	<b>95.4</b>	94.9
Investment result	<b>431</b>	485
Insurance result	<b>806</b>	860
Operating result	<b>684</b>	727
Profit before tax	<b>479</b>	613
Profit after tax	<b>351</b>	427
Return on equity (%)	<b>9.1</b>	11.5
NAV per share (ex pension) (p)	<b>107</b>	108

## 2012 NWP Growth Drivers



## Stable COR, growing current year contribution





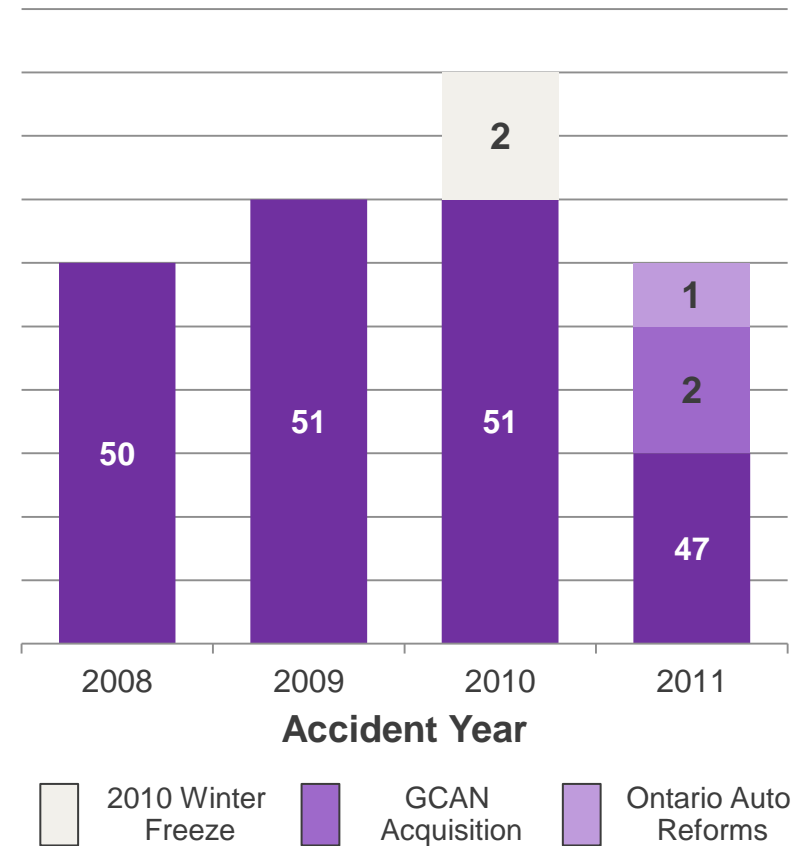
# Ongoing positive prior year development

## Loss Development\* (£m)

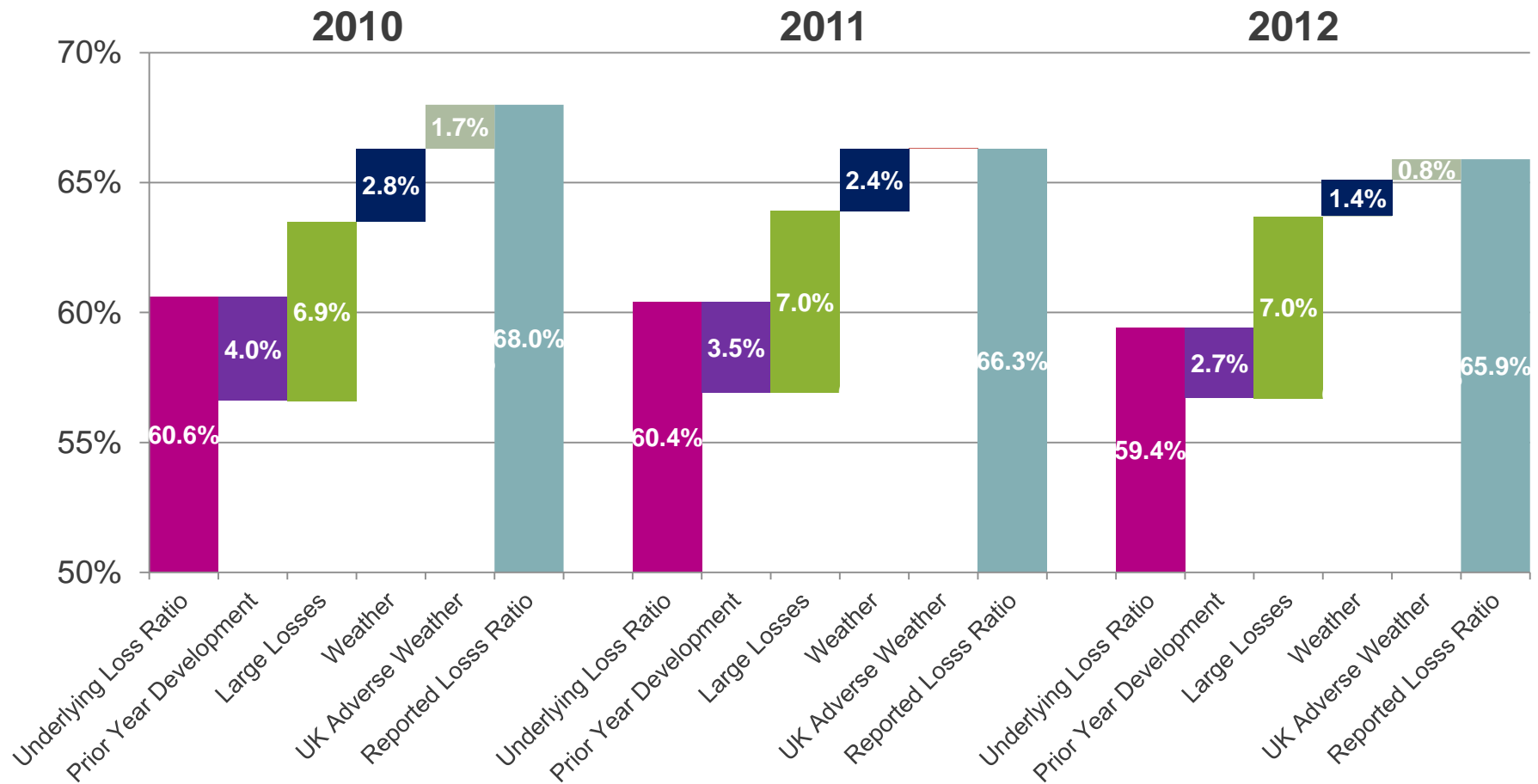
After years	Accident Year (AY)									
	Prior	03	04	05	06	07	08	09	10	11
1	(38)	(33)	133	122	18	2	(2)	(39)	(25)	7
2	(352)	87	190	90	97	27	8	29	21	
3	(21)	110	85	74	85	63	29	25		
4	(421)	60	67	83	52	44	16			
5	80	60	49	63	22	16				
6	108	23	35	25	30					
7	84	59	44	25						
8	72	12	18							
9	129	17								
>10	69									

\* Movement in estimate of cumulative claims

## Paid to incurred ratio (%)

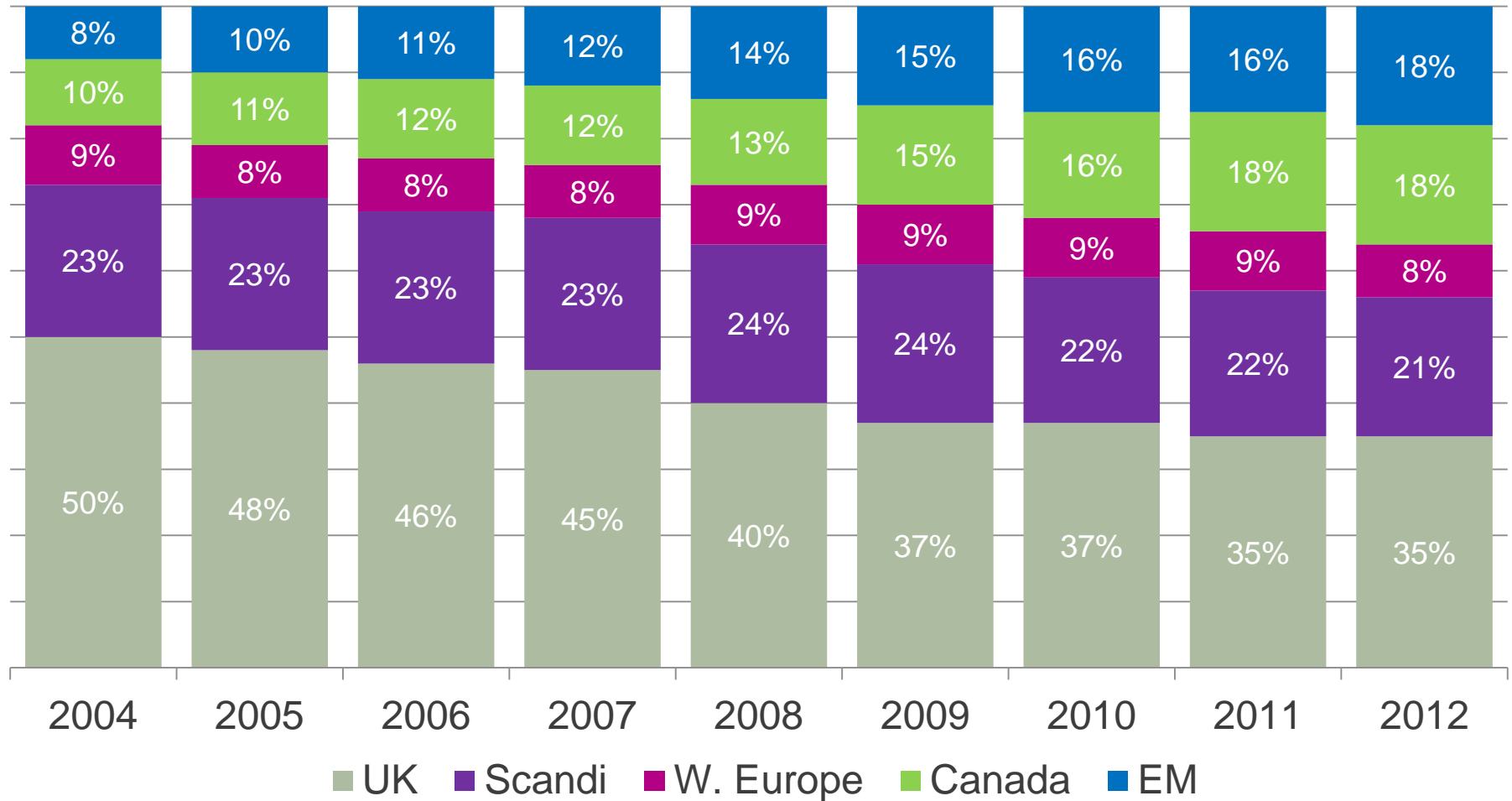


# Underlying loss ratio improvement

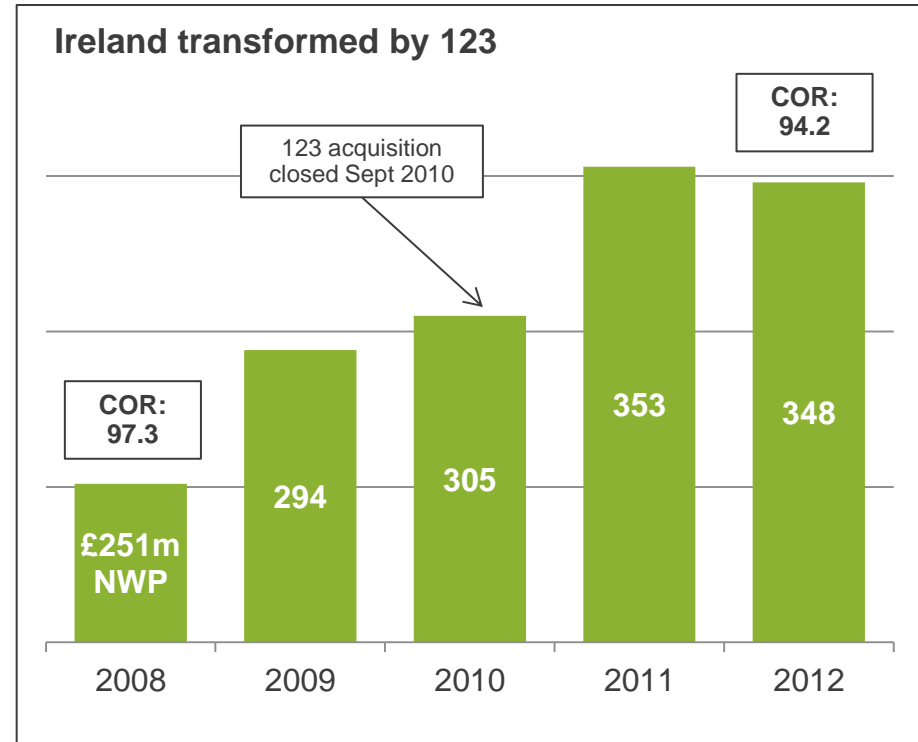
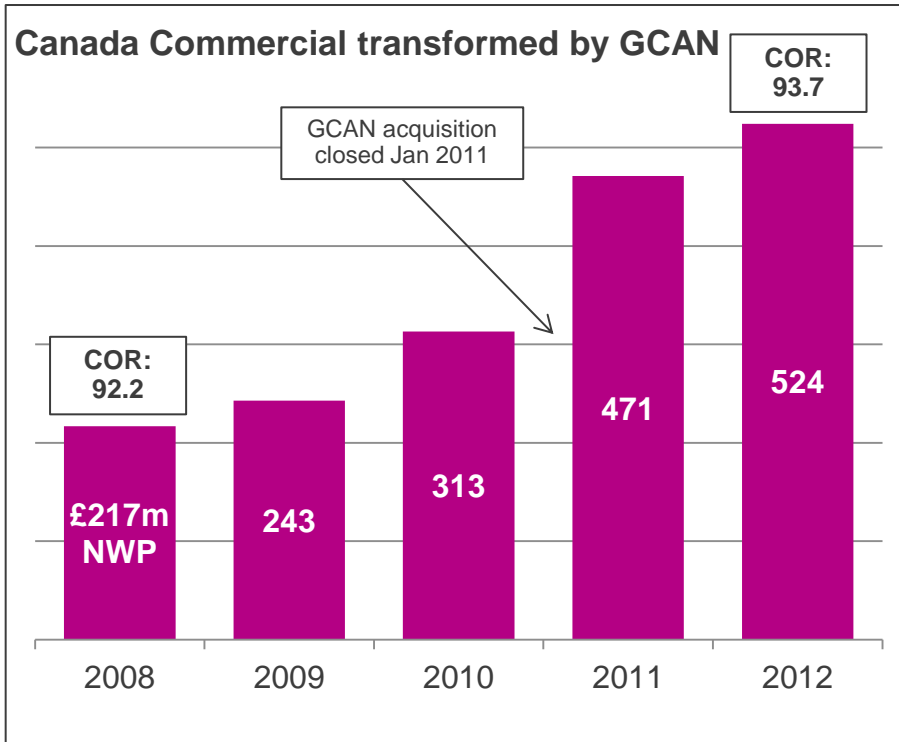


**Five year average: Weather:2.2%; Large:7.0%**

# Growing our international operations



# Proven track record of successful bolt-on acquisitions



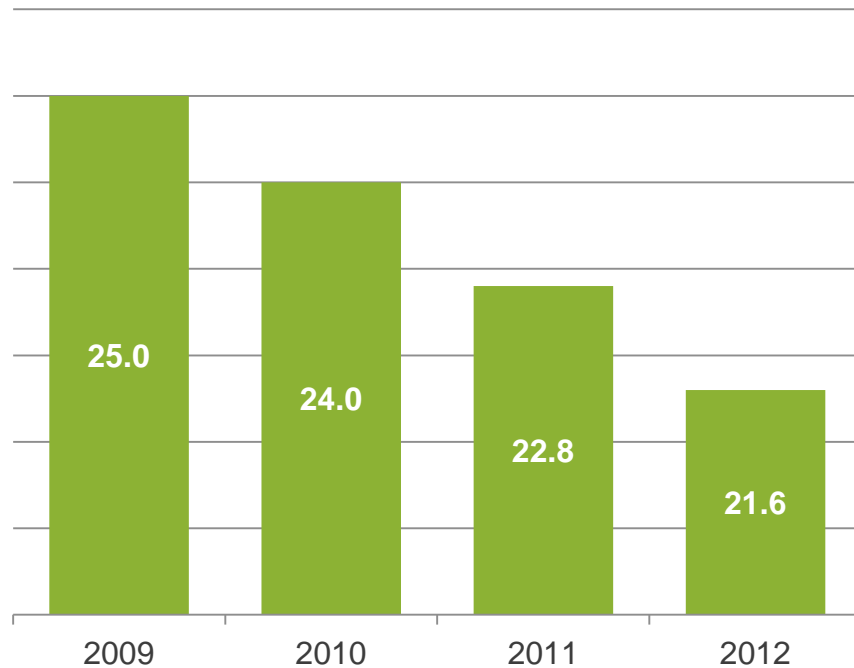
## Leading transaction capability

- 63 deals (acquisitions, distribution deals and joint ventures) since 2005 across all regions
- £1.7bn of NWP arising from deal activity since 2005
- Rigorous transaction process, focus on delivering returns above cost of equity

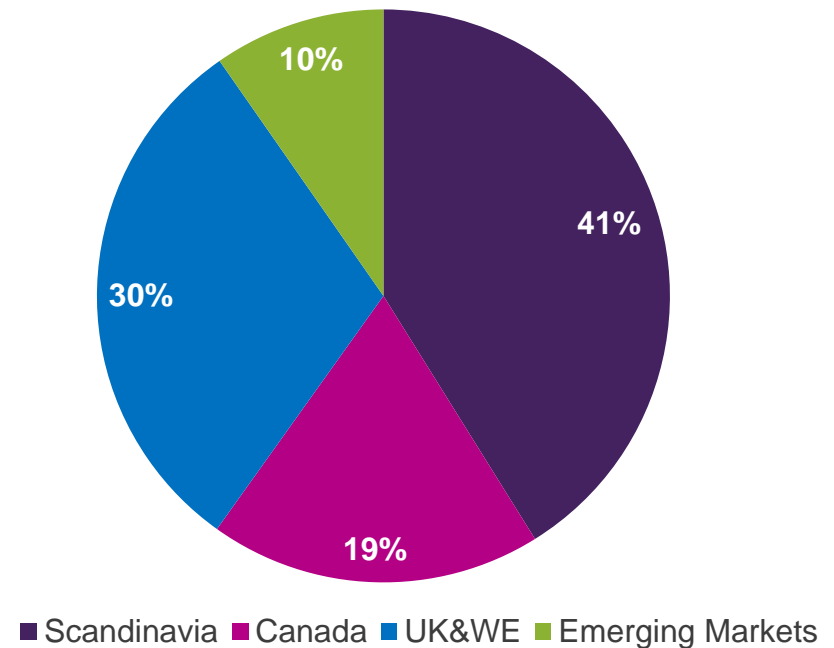
# Balancing the insurance result

10% of the 2012 insurance result from Emerging Markets....

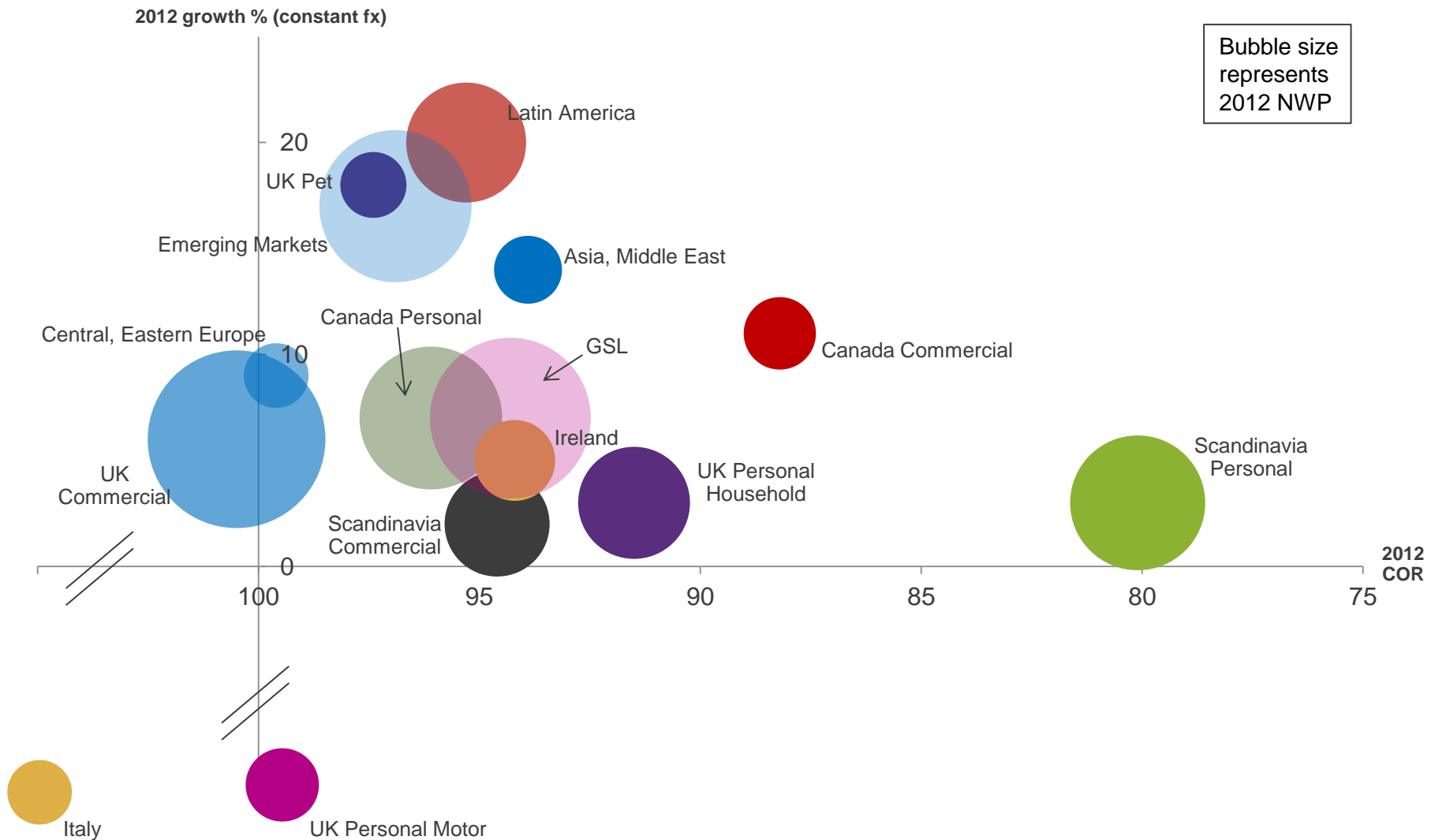
Emerging Markets Expense Ratio



2012



# Balanced mix of growth and profitability

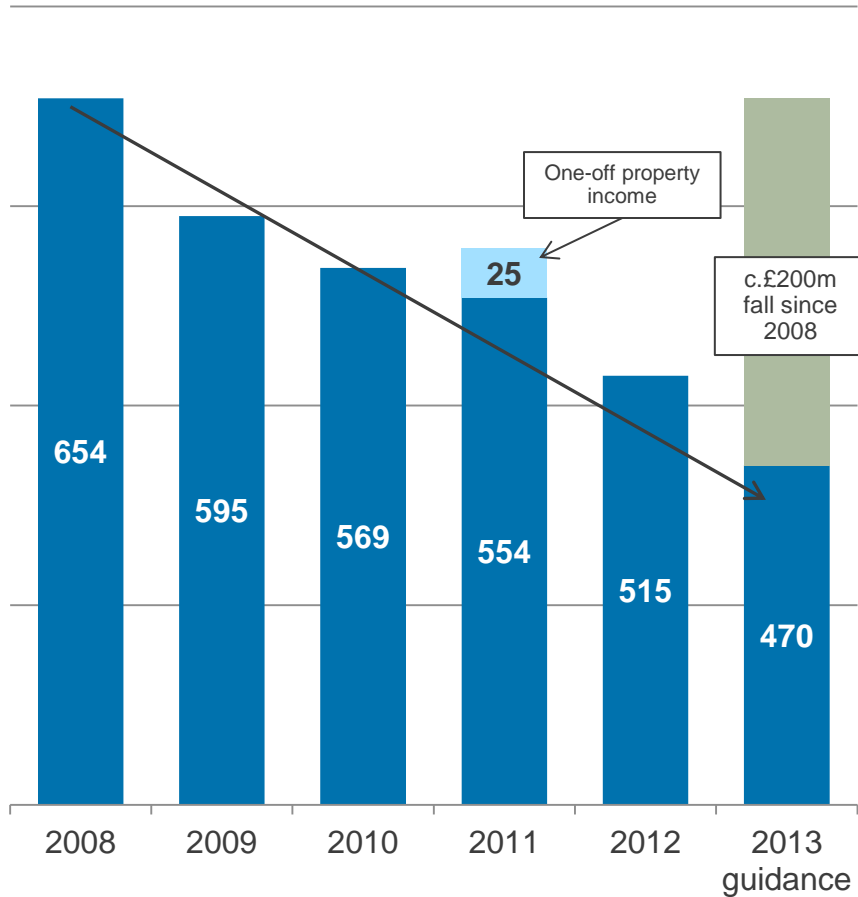


# Operating result

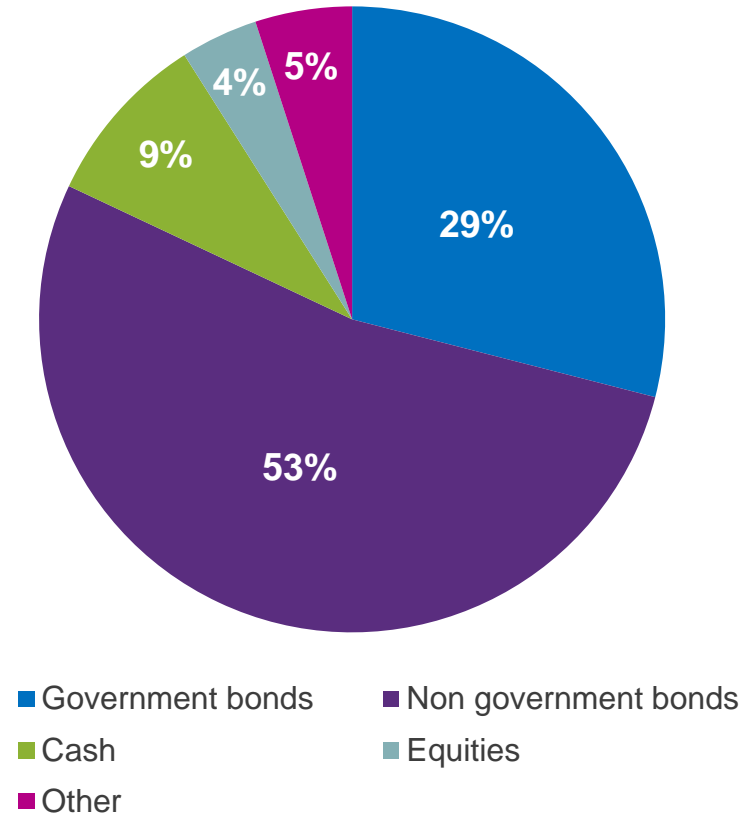
£m	2012	2011
<b>Underwriting result</b>	<b>375</b>	<b>375</b>
Investment income	<b>515</b>	<b>579</b>
Discount unwind	<b>(84)</b>	<b>(94)</b>
<b>Investment result</b>	<b>431</b>	<b>485</b>
<b>Insurance result</b>	<b>806</b>	<b>860</b>
Other activities	<b>(122)</b>	<b>(133)</b>
<b>Operating result</b>	<b>684</b>	<b>727</b>

# Investment income – continued low yield environment

Investment income (£m)



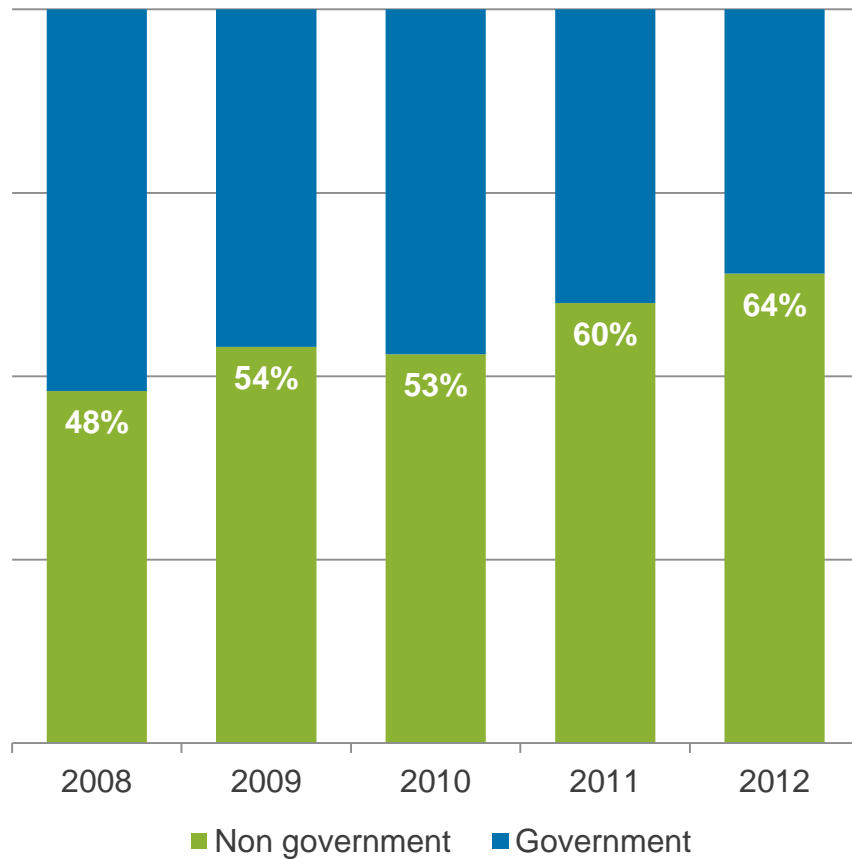
Composition of investment portfolio



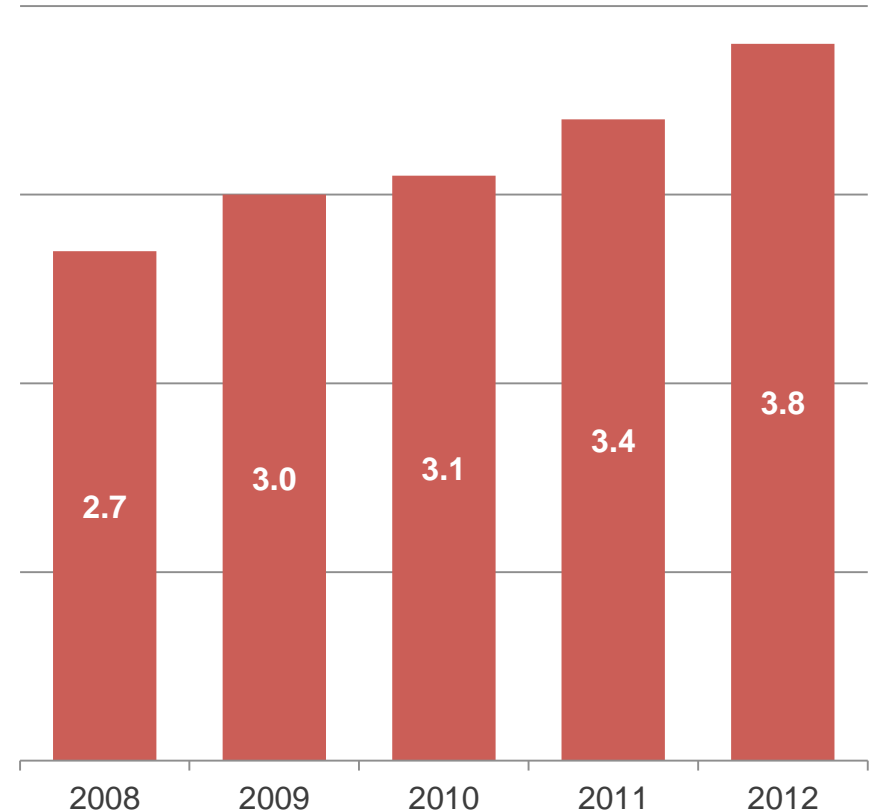


## Average duration and non-government securities increased

Weighting of fixed income portfolio



Average duration of bond portfolio (yrs)

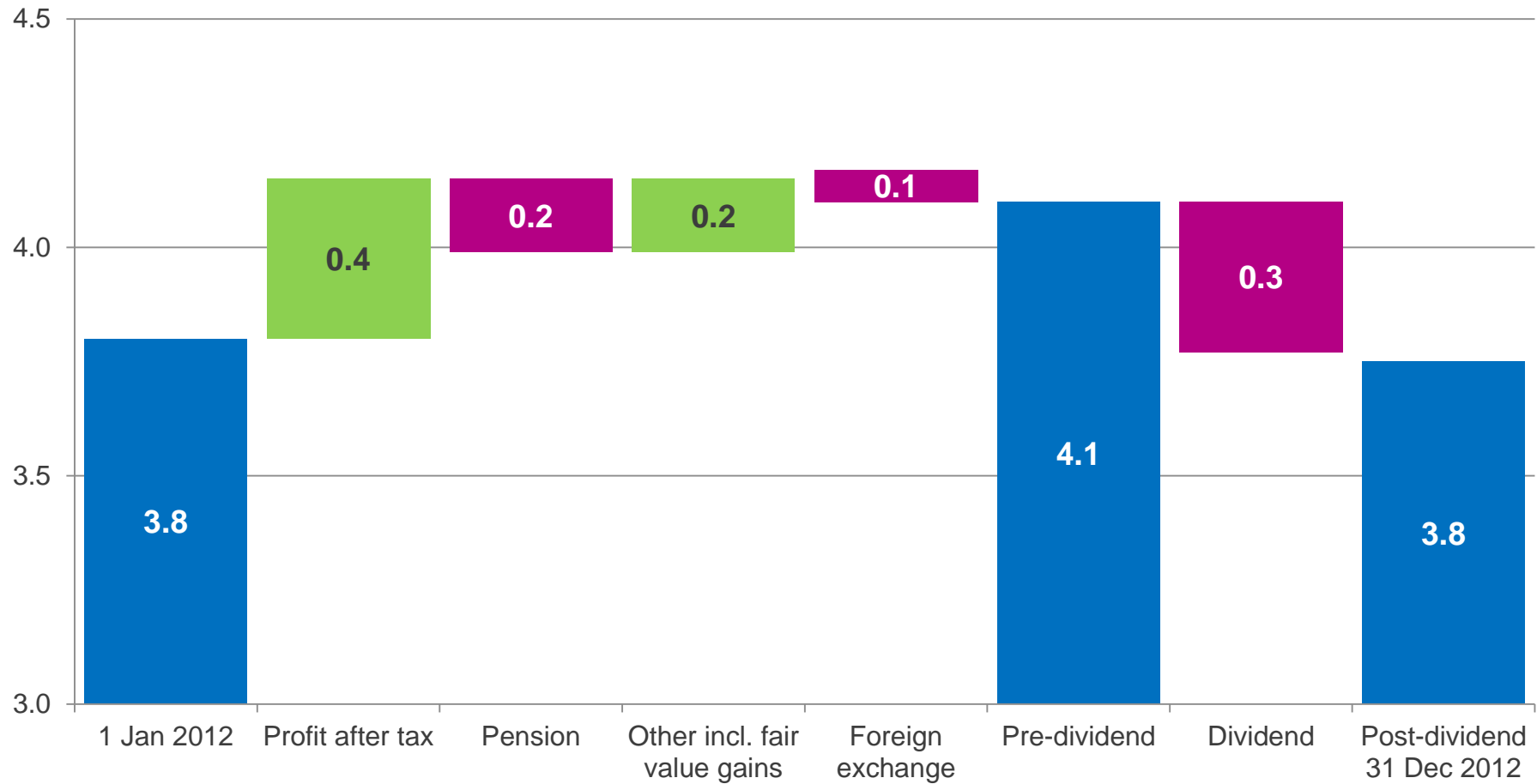


# Income statement

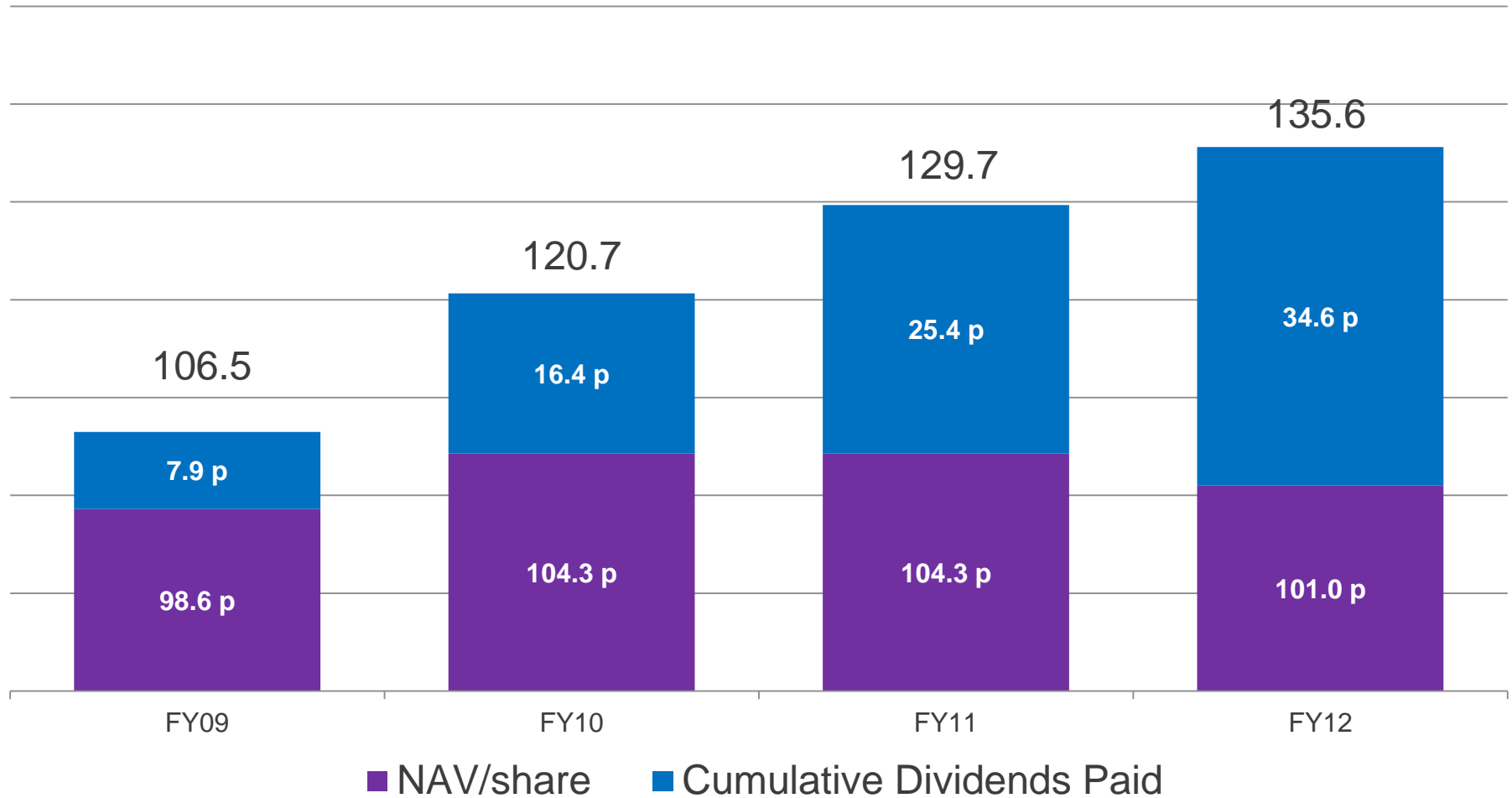
£m	2012	2011
<b>Operating result</b>	<b>684</b>	<b>727</b>
Gains	28	157
Interest	(115)	(117)
Reorganisation costs	(24)	-
Solvency II costs	(32)	(30)
Acquisitions/disposals	(20)	(10)
Amortisation	(42)	(114)
<b>Profit before tax</b>	<b>479</b>	<b>613</b>
Tax	(128)	(186)
<b>Profit after tax</b>	<b>351</b>	<b>427</b>

# Strong balance sheet

## Movement in Shareholders' Funds (£bn)

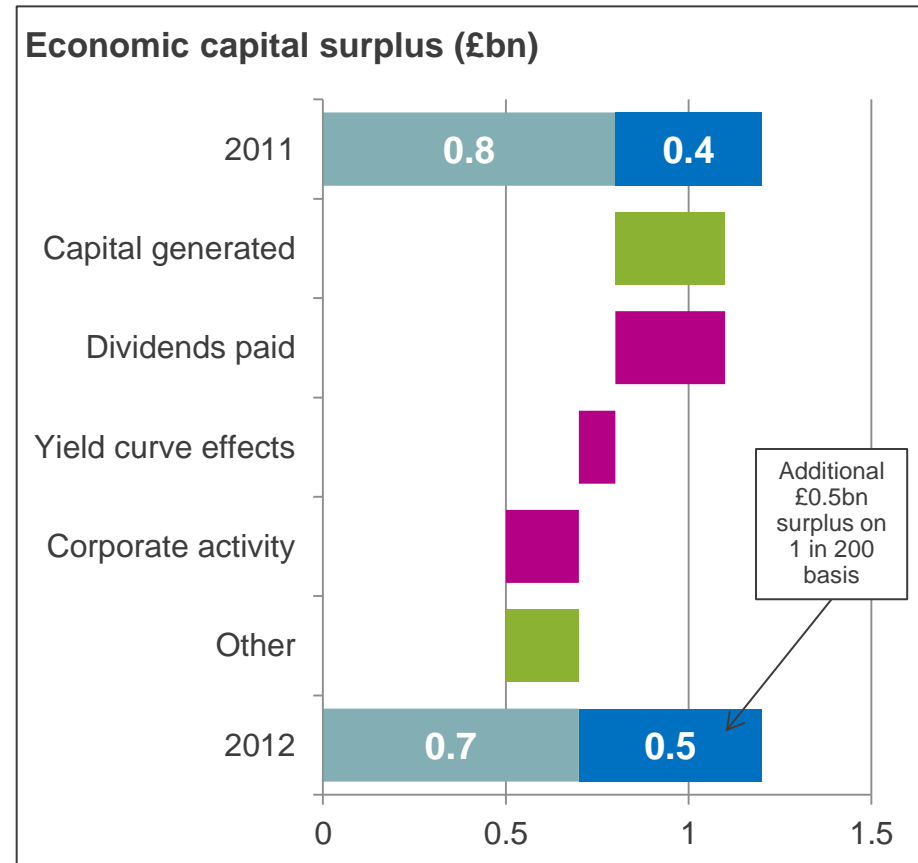
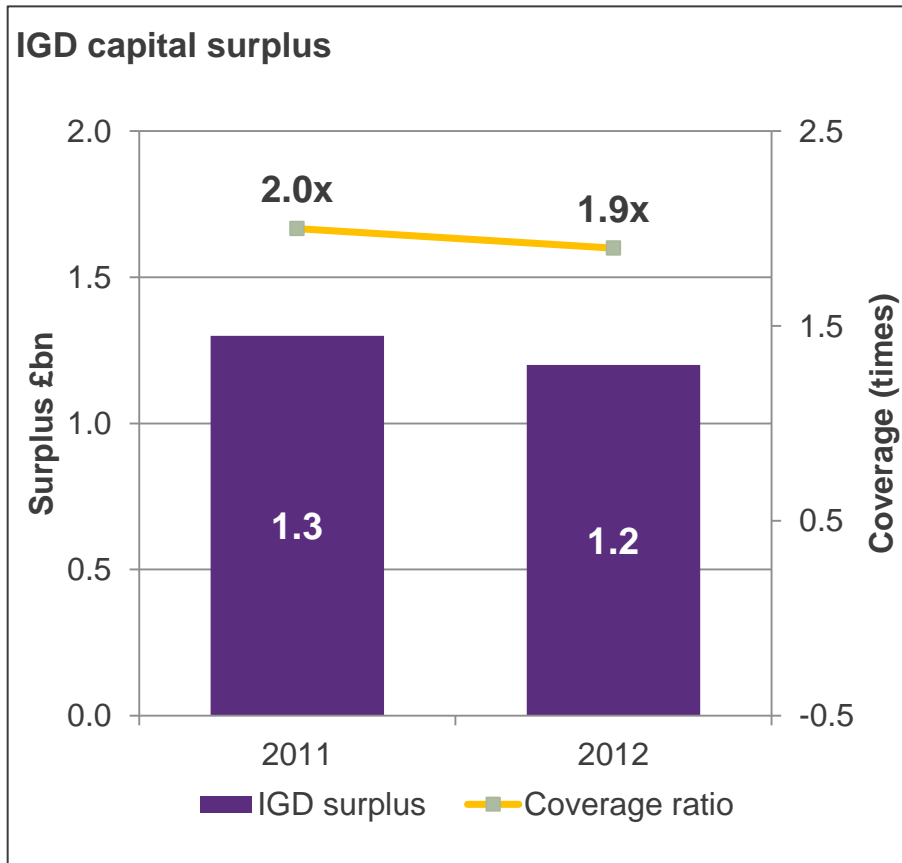


# NAV and dividend growth

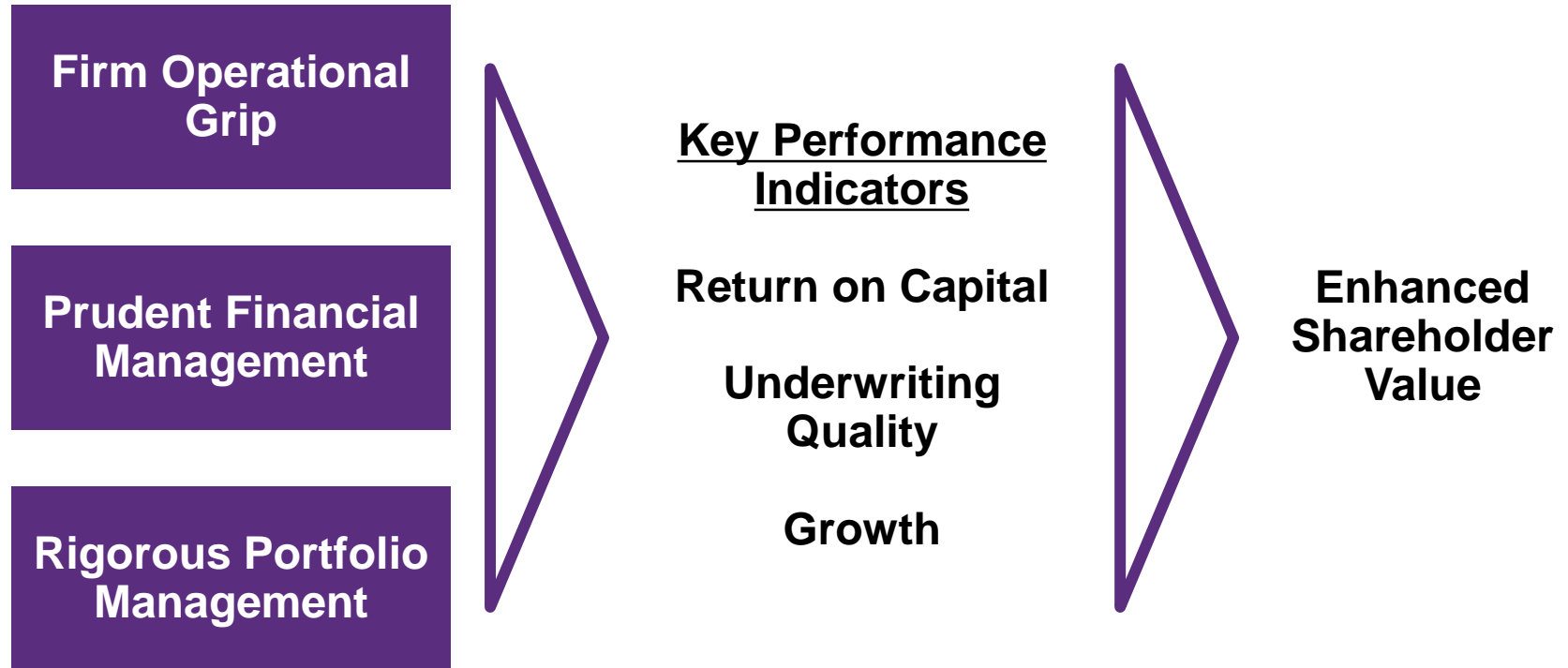


Dividends paid in the year plus closing NAV/share

# Maintained robust capital positions



# Performance management framework



**Simon Lee**

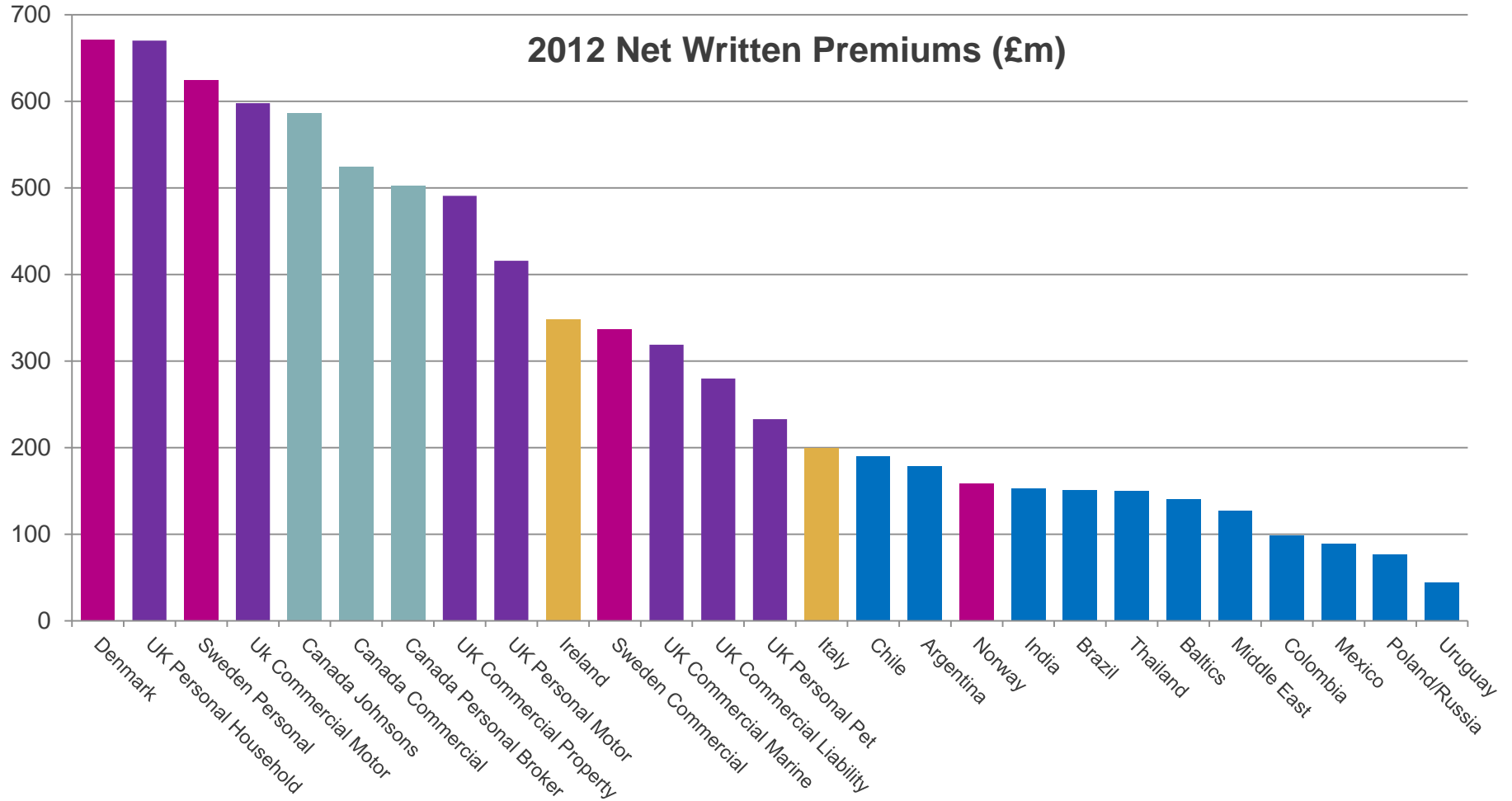
Group Chief Executive

## 2012 Preliminary Results - Summary

- Net written premiums up **5%** at constant FX to **£8.4bn**
- Underwriting result flat at **£375m**
- Combined operating ratio of **95.4%**, in line with guidance
- Investment income of **£515m**, slightly better than guidance
- Operating profit of **£684m**
- Profit before tax of **£479m** and profit after tax of **£351m**
- IGD surplus of **£1.2bn**, **1.9** times covered.
- Economic capital surplus of **£1.2bn** at 99.5% calibration
- Net asset value per share, excluding the pension deficit, of **107p**
- Earnings per share **9.5p**; return on equity **9.1%**

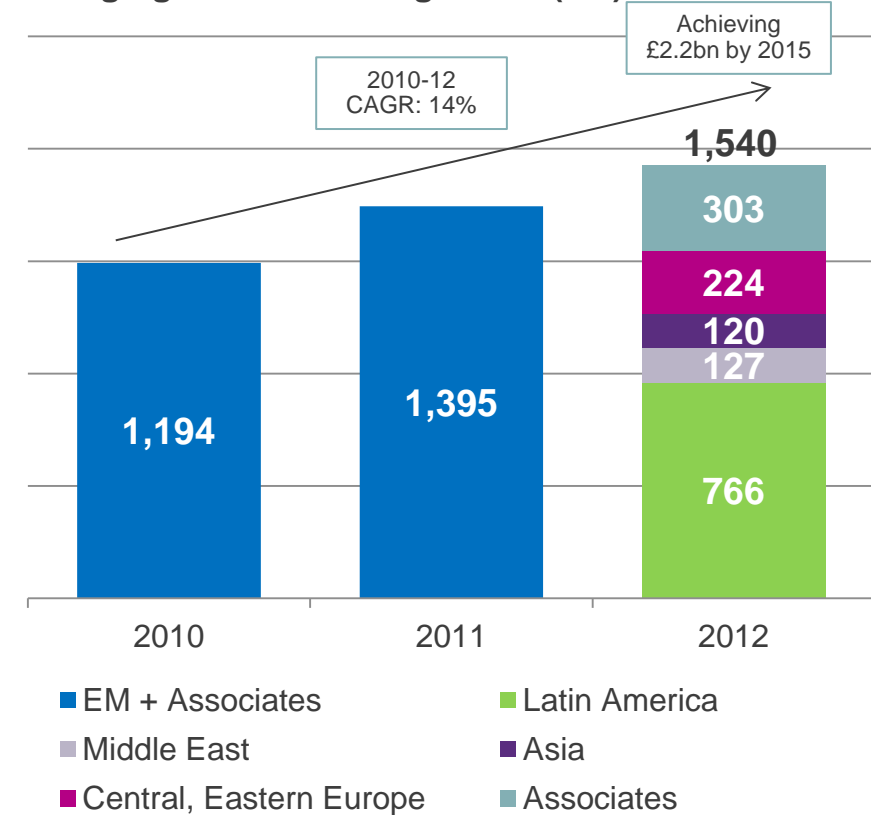


# A unique geographic footprint



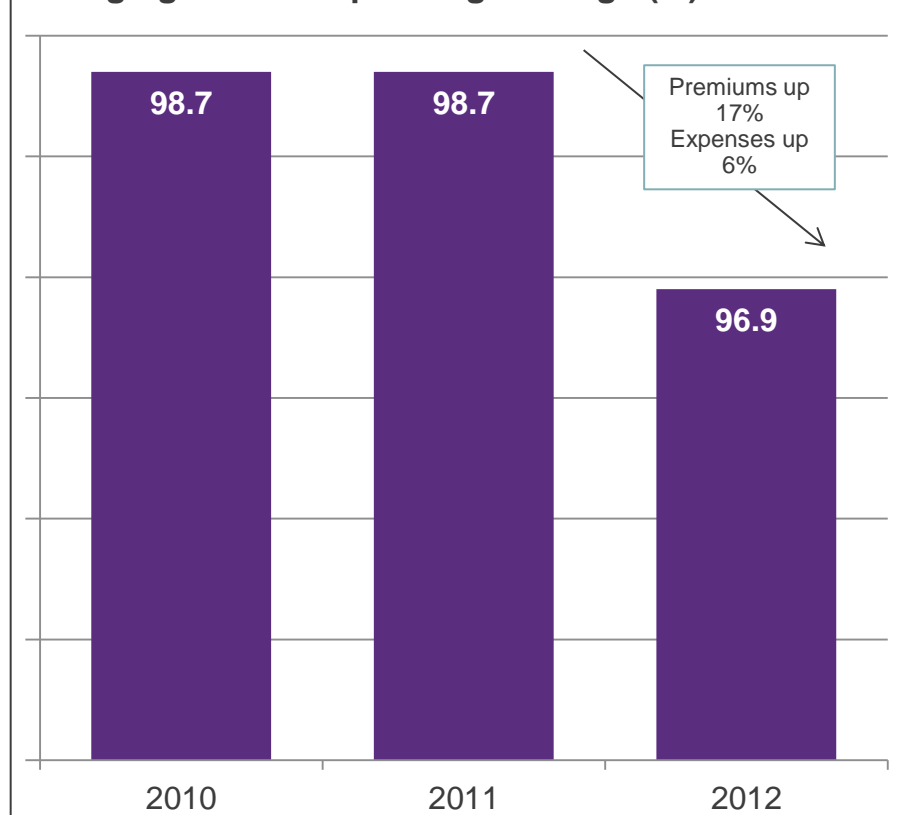
# Emerging Markets – continued strong growth

## Emerging Markets NWP growth<sup>1</sup> (£m)



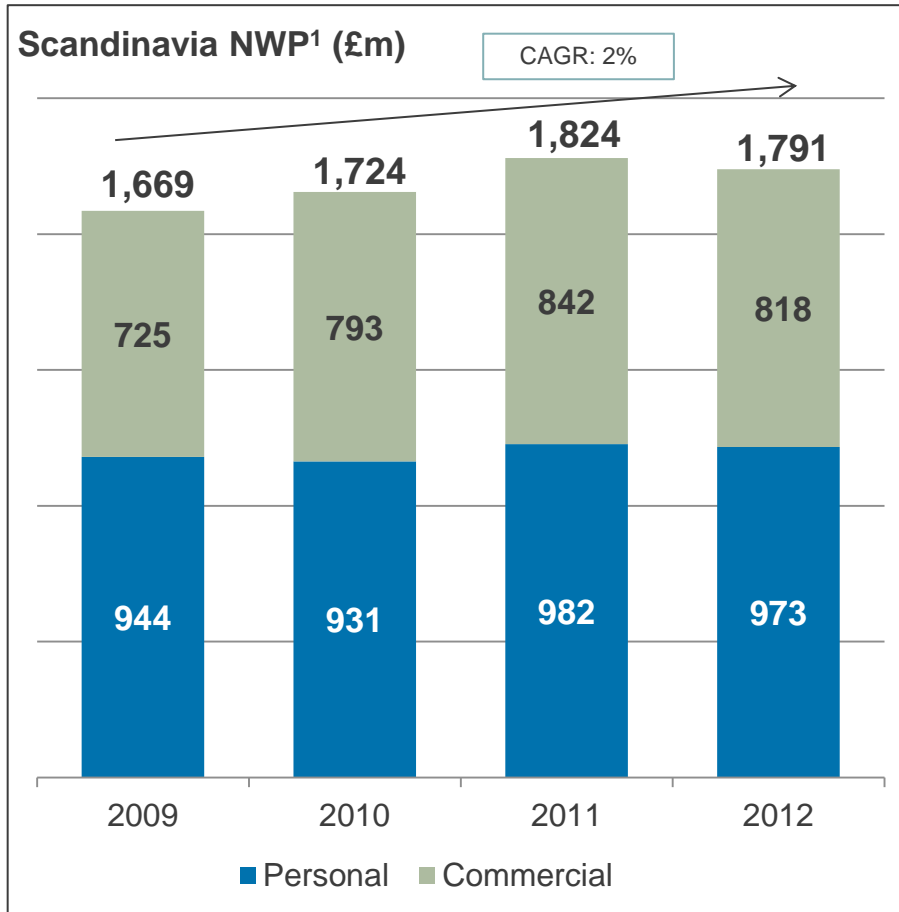
<sup>1</sup>On reported basis

## Emerging Markets operating leverage (%)



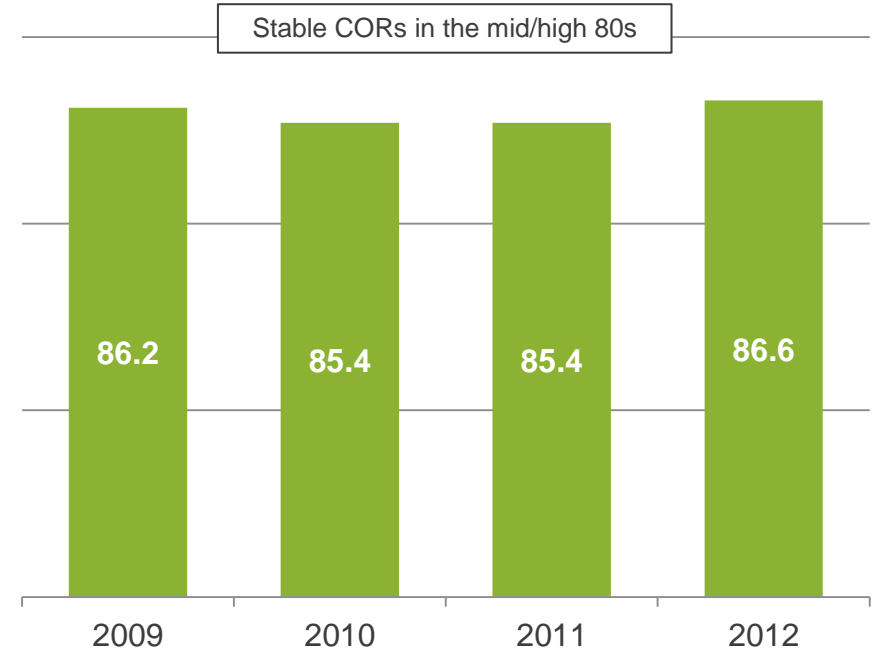
**Outlook: Achieve £2.2bn of premiums by 2015 (including associates).  
Further operating leverage and reducing COR**

## Scandinavia – stable underwriting performance



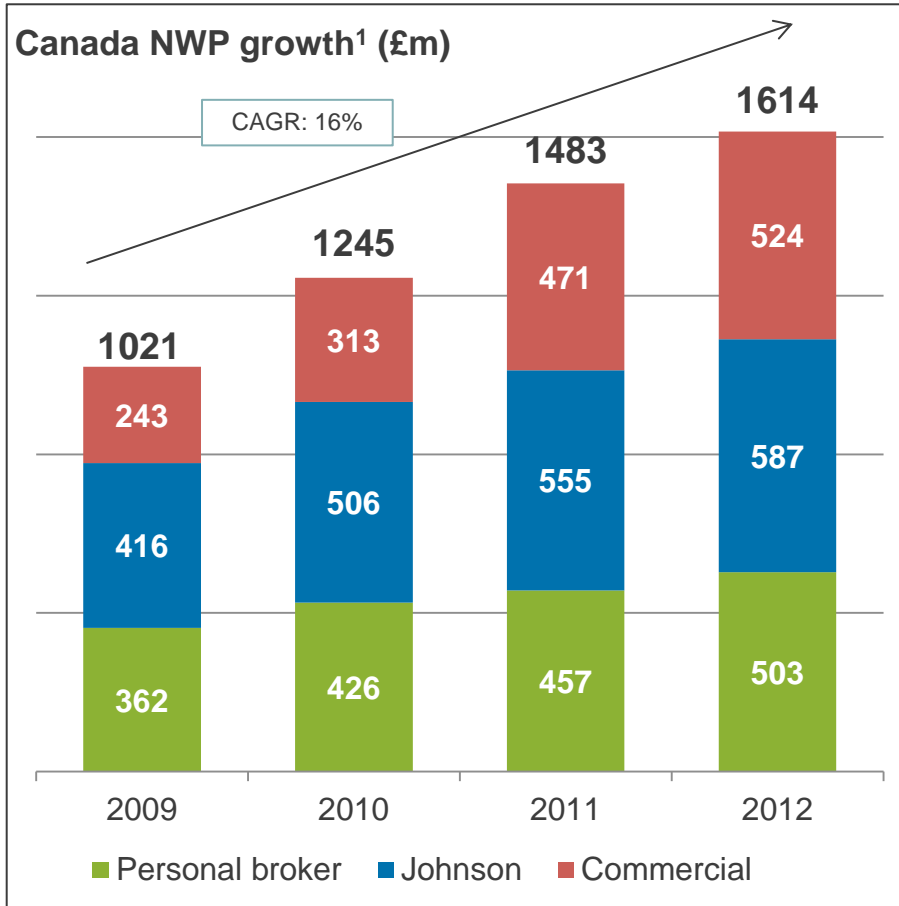
<sup>1</sup>On reported basis

### Scandinavia CORs (%)

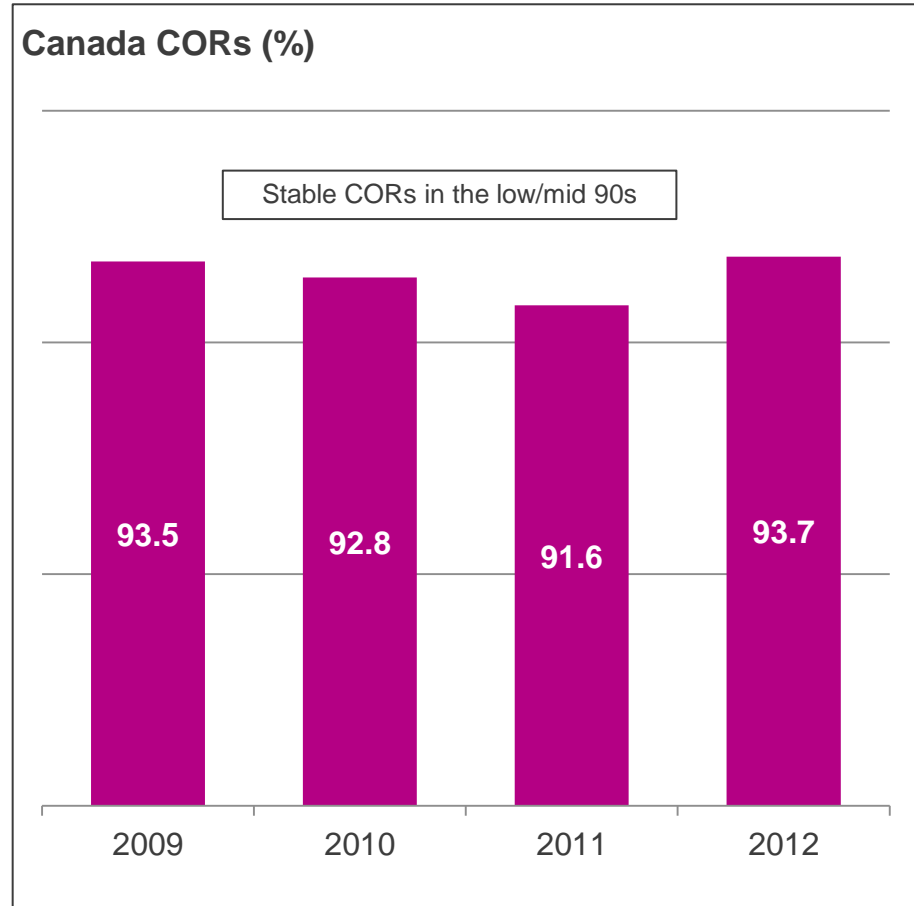


**Outlook: Growth in line with local GDP. COR in mid/high 80s**

# Canada – continued growth

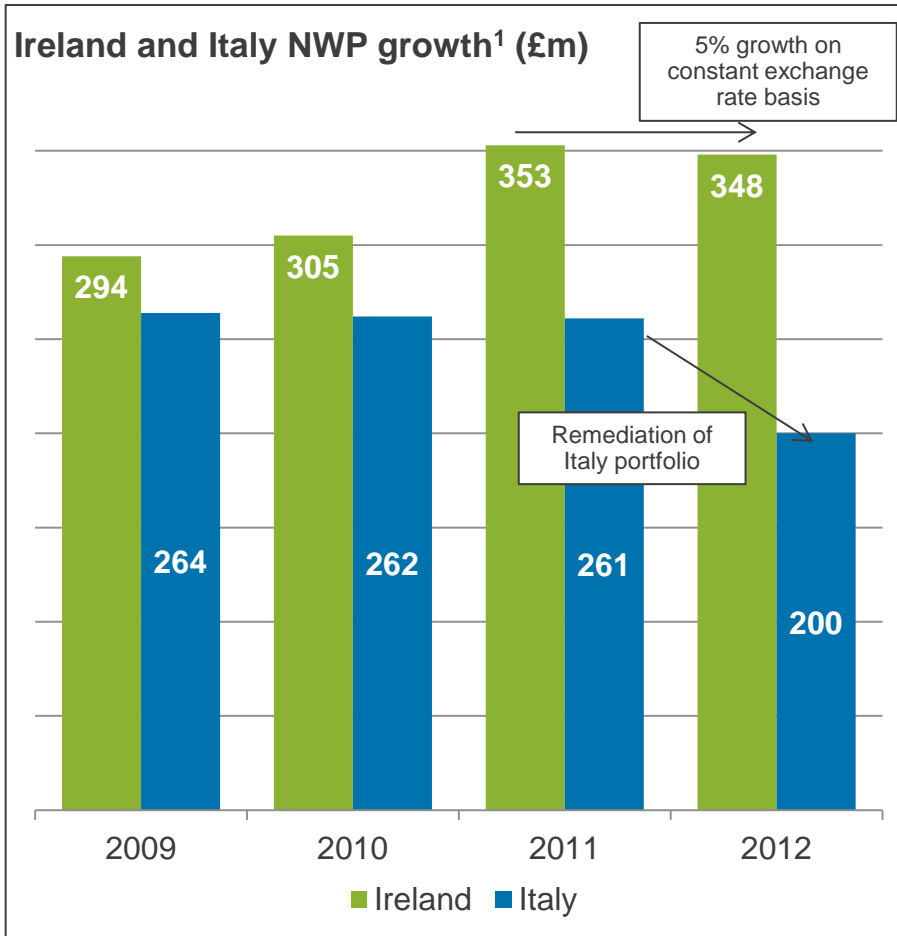


<sup>1</sup>On reported basis

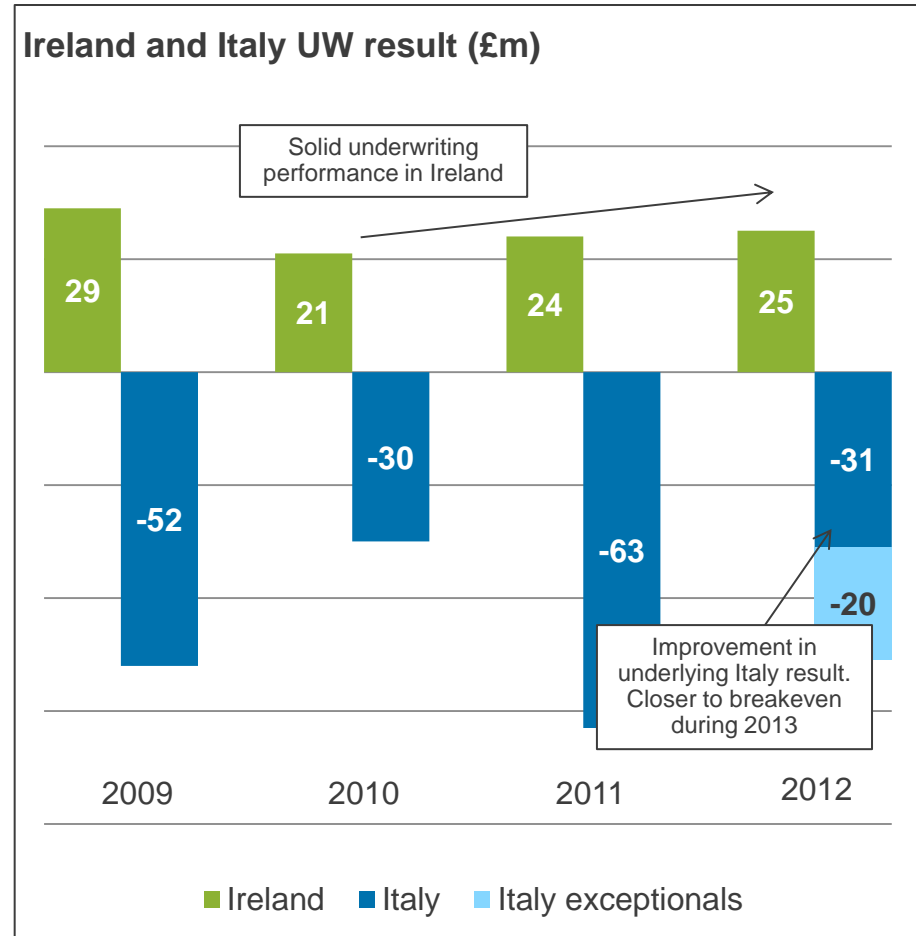


**Outlook: Strong organic growth supplemented by bolt on acquisitions.  
COR in low/mid 90s**

# Western Europe – on track in Italy

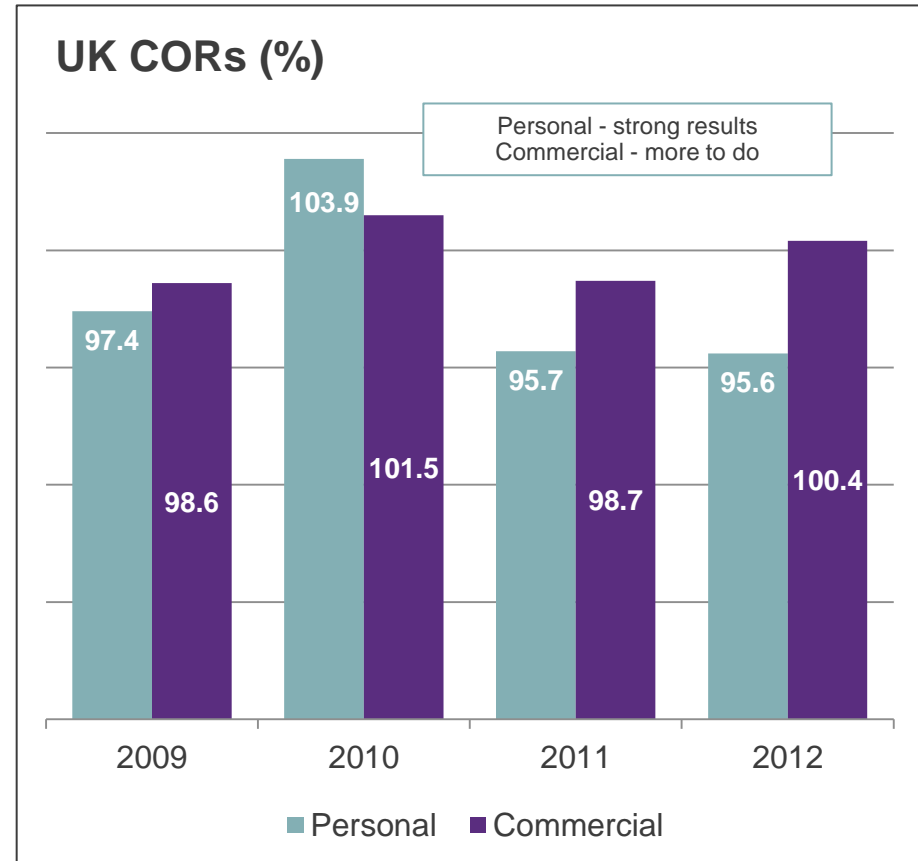
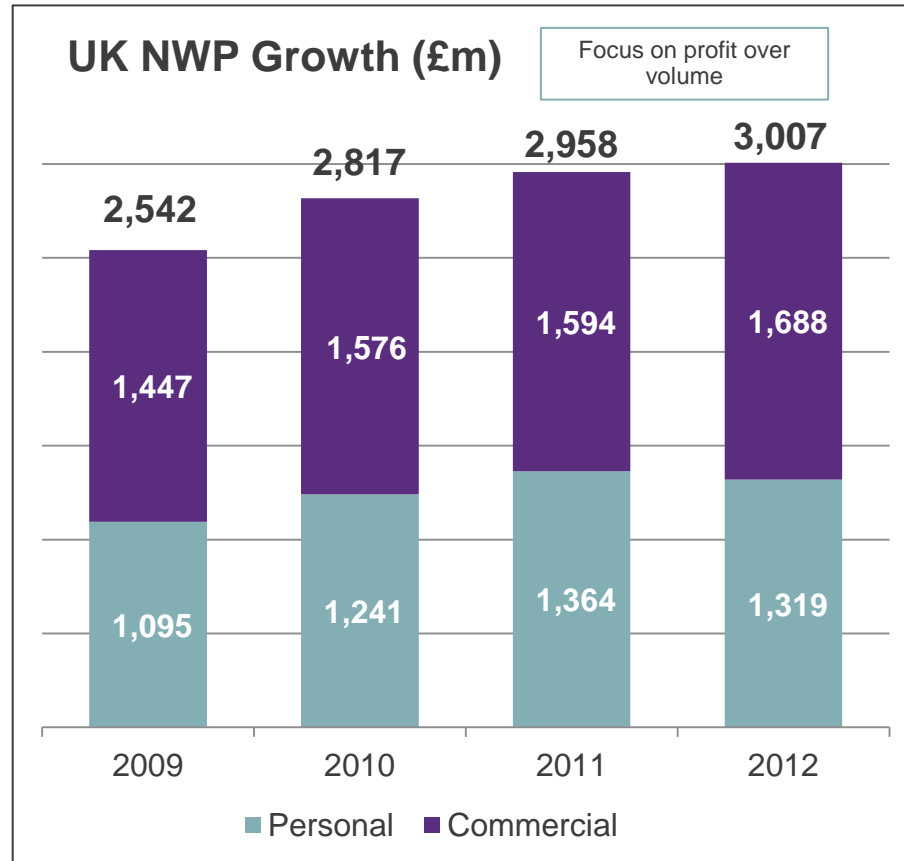


<sup>1</sup>On reported basis



**Outlook: Strong profitable growth in Ireland. Italy to break even during 2013**

# UK – re-shaping of portfolio continues



**Outlook: Focus on profit over volume. Expect continuing improvement in COR**

## Positive momentum

<b>NWP</b>	Continued growth
<b>COR</b>	Better than 95% in 2013, further improvements to follow
<b>Investment Income</b>	Around £470m in 2013, rate of decline slowing
<b>ROE</b>	10-12% in 2013, further improvements to follow
<b>Dividend</b>	Down 33% in 2013, progressive policy thereafter
<b>Disclosure</b>	Series of investor briefings in 2013/14 to educate market on the significant opportunities we see across the business

# Questions



## Positive momentum

<b>Emerging Markets</b>	Achieve £2.2bn of premiums by 2015 (including associates). Further operating leverage and reducing COR
<b>Canada</b>	Strong organic growth supplemented by bolt on acquisitions. COR in low/mid 90s
<b>Scandinavia</b>	Growth in line with local GDP. COR in mid/high 80s
<b>UK</b>	Focus on profit over volume. Expect continuing improvement in COR
<b>W. Europe</b>	Strong profitable growth in Ireland. Italy to break even during 2013
<b>Investment Income</b>	Around £470m in 2013, rate of decline slowing
<b>NWP</b>	Continued growth
<b>COR</b>	Better than 95% in 2013, further improvements to follow
<b>ROE</b>	10-12% in 2013, further improvements to follow
<b>Dividend</b>	Down 33% in 2013, progressive policy thereafter
<b>Disclosure</b>	Series of investor briefings in 2013/14 to inform the market on the significant opportunities we see across the business