



# 2013 HALF YEAR RESULTS

1 August 2013



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# 2013 Half Year Results - Summary

- Net written premiums up **7%** at constant FX to **£4.7bn**
- Underwriting result up 26% at **£188m**, combined operating ratio of **94.2%**,
- Investment income of **£256m**, comfortably on track to meet guidance
- Operating profit up **11%** to **£339m**
- Profit after tax up **24%** to **£190m**
- IGD surplus of **£0.9bn**, **1.7** times covered. Economic capital surplus of **£1.3bn**, **1.6** times covered
- Interim dividend of **2.28p** per share

# **Richard Houghton**

Chief Financial Officer

# Strong financial performance

£m (unless otherwise stated)	H1 2013	H1 2012 <sup>1</sup>	Change <sup>2</sup>
Net written premiums	<b>4,652</b>	4,276	9%
Underwriting result	<b>188</b>	149	26%
COR (%)	<b>94.2</b>	95.4	1.2pts
Investment result	<b>206</b>	225	(8%)
Insurance result	<b>394</b>	374	5%
Operating result	<b>339</b>	305	11%
Profit before tax	<b>250</b>	219	14%
Profit after tax	<b>190</b>	153	24%
Return on equity (%)	<b>10.0</b>	8.0	2.0pts
NAV per share (ex pension) (p)	<b>103</b>	104	(1%)

<sup>1</sup> Restated for changes to IAS19 "Employee Benefits"

<sup>2</sup> At reported FX rates

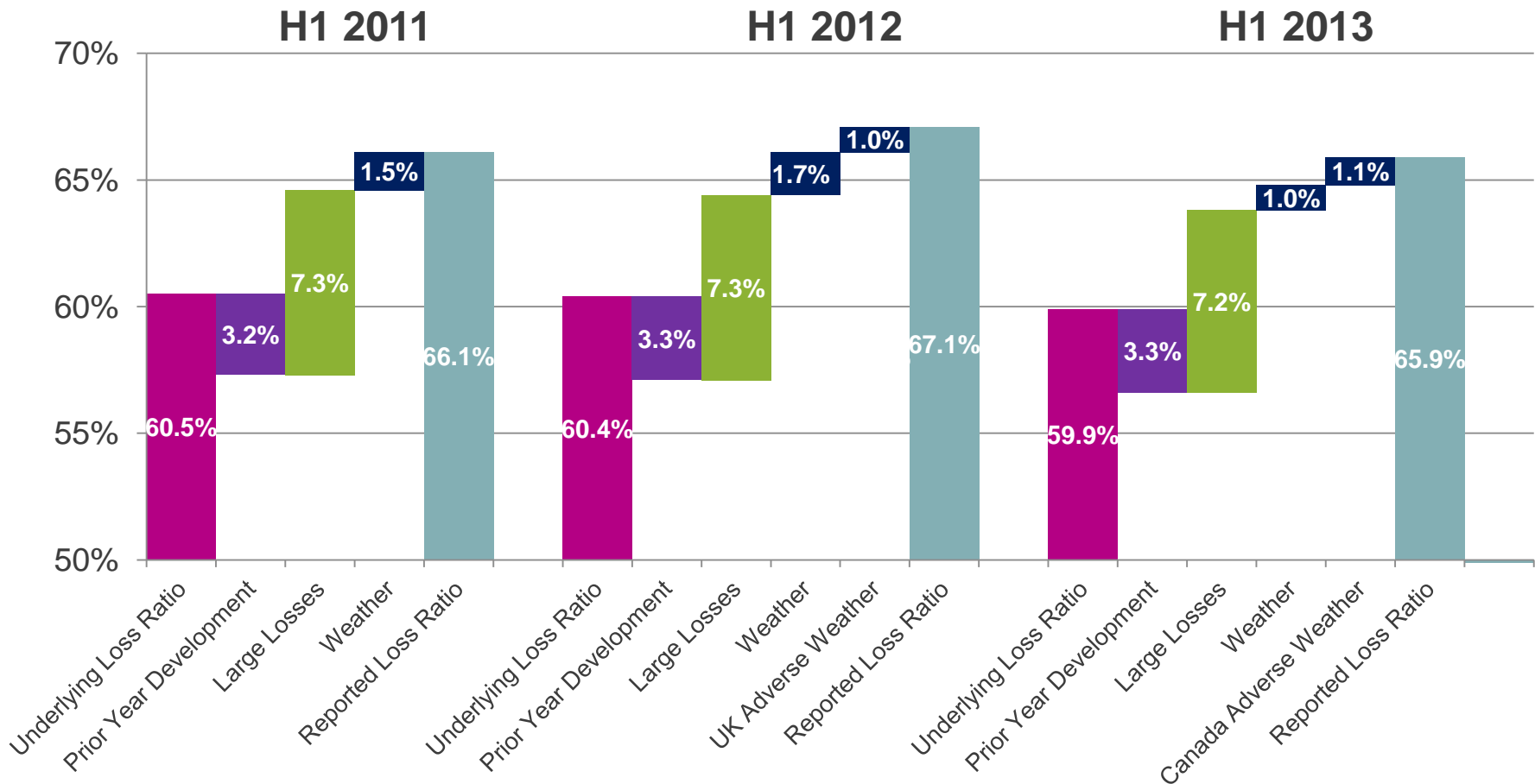
# Operating result up 11%

£m	H1 2013	H1 2012
Underwriting result	188	149
Investment income	256	267
Discount unwind	(50)	(42)
Investment result	206	225
Insurance result	394	374
Other activities	(55)	(69)
<b>Operating result</b>	<b>339</b>	<b>305</b>

## Profit after tax up 24%

£m	H1 2013	H1 2012
<b>Operating result</b>	<b>339</b>	<b>305</b>
Gains	18	34
Interest	(59)	(58)
Amortisation	(21)	(20)
Pension net interest costs	(4)	(3)
Solvency II costs	(10)	(16)
Reorganisation costs	(4)	(19)
Acquisitions/disposals	(9)	(4)
<b>Profit before tax</b>	<b>250</b>	<b>219</b>
Tax	(60)	(66)
<b>Profit after tax</b>	<b>190</b>	<b>153</b>

# Underlying loss ratio improvement



**Five year average: Weather:2.2%; Large:7.3%**

Weather and large loss experience in line with long term averages



# Underlying improvement in Current Year Underwriting result



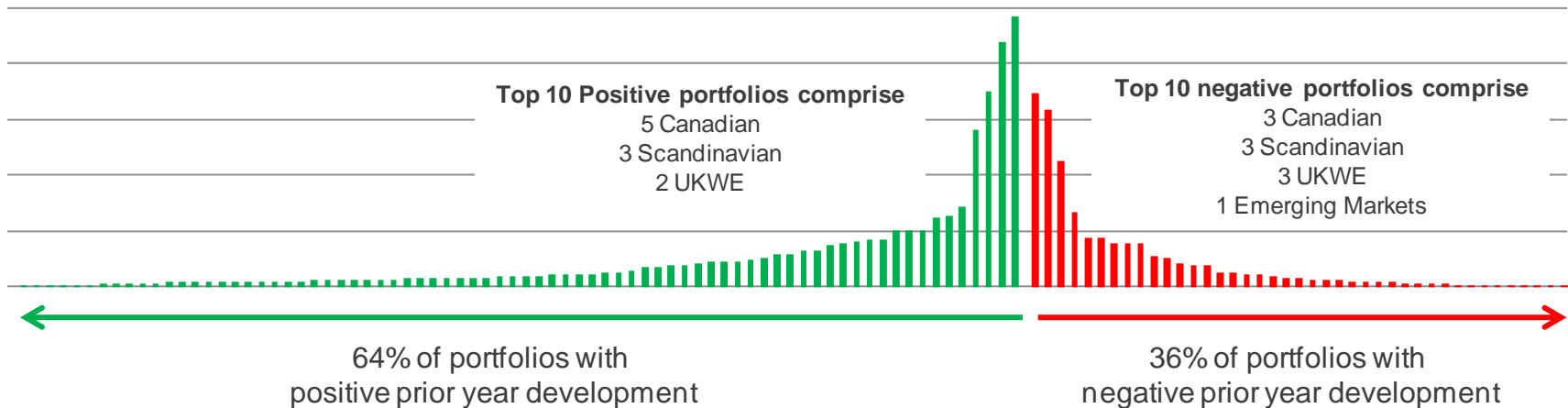
Reported Numbers	H1 2010 <sup>1</sup>	H1 2011 <sup>1</sup>	H1 2012 <sup>1</sup>	H1 2013
CY U/W Result (£m)	15	100	45	94
Weather (%)	3.4	1.5	2.7	2.1
Large (%)	6.9	7.3	7.3	7.2
Adjustment to normalise weather and large losses to long term average (£m)	+28	-27	20	-9

<sup>1</sup> As reported

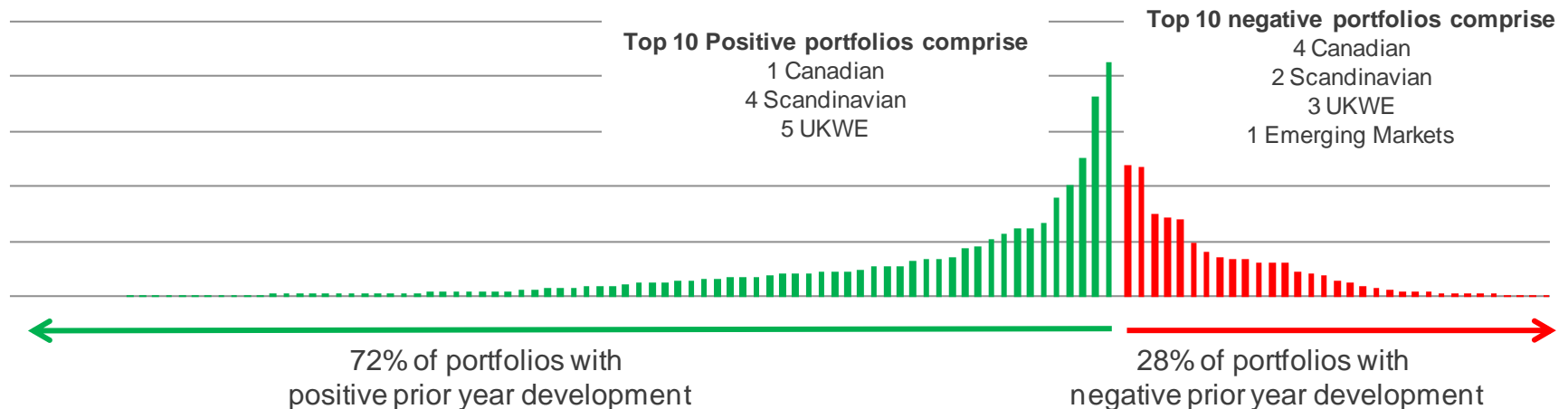
Delivering the benefits of improved loss ratio and premium growth

# Prior year development from across the portfolio

## 2012 FY Prior Year Development by Portfolio



## 2013 H1 Prior Year Development by Portfolio



Not dependent on any one portfolio for ongoing strong PYD

## Strong premium growth....

	Rate	Volume	Deals	Constant	FX	Reported
Scandinavia	4%	(4%)	-	-	6%	6%
Canada	2%	2%	11%	15%	2%	17%
UK	4%	(1%)	-	3%	-	3%
WE	2%	1%	-	3%	3%	6%
Emerging Markets	2%	8%	6%	16%	1%	17%
Group Total	3%	1%	3%	7%	2%	9%

Remediation of Danish portfolios

Acquisition of L'Union Canadienne on track

Focus on profitability over volume in the UK

Solid continued EM organic growth

Argentine acquisitions remain on track

....from successful strategy execution

# Turnaround in UKWE on track....

## UK & Western Europe Underwriting Result (£m)

Region	H1 2011	H1 2012 <sup>1</sup>	H1 2013
UK Personal	27	9	48
UK Commercial	(7)	(19)	25
ESL	(12)	(6)	(28)
Italy	(24)	(39)	(5)
Ireland	21	14	10
Total	5	(41)	50

Affected by adverse  
weather in UK

Turnaround in UKCL  
delivering  
improvement to  
underwriting result

Factory fire in  
Germany

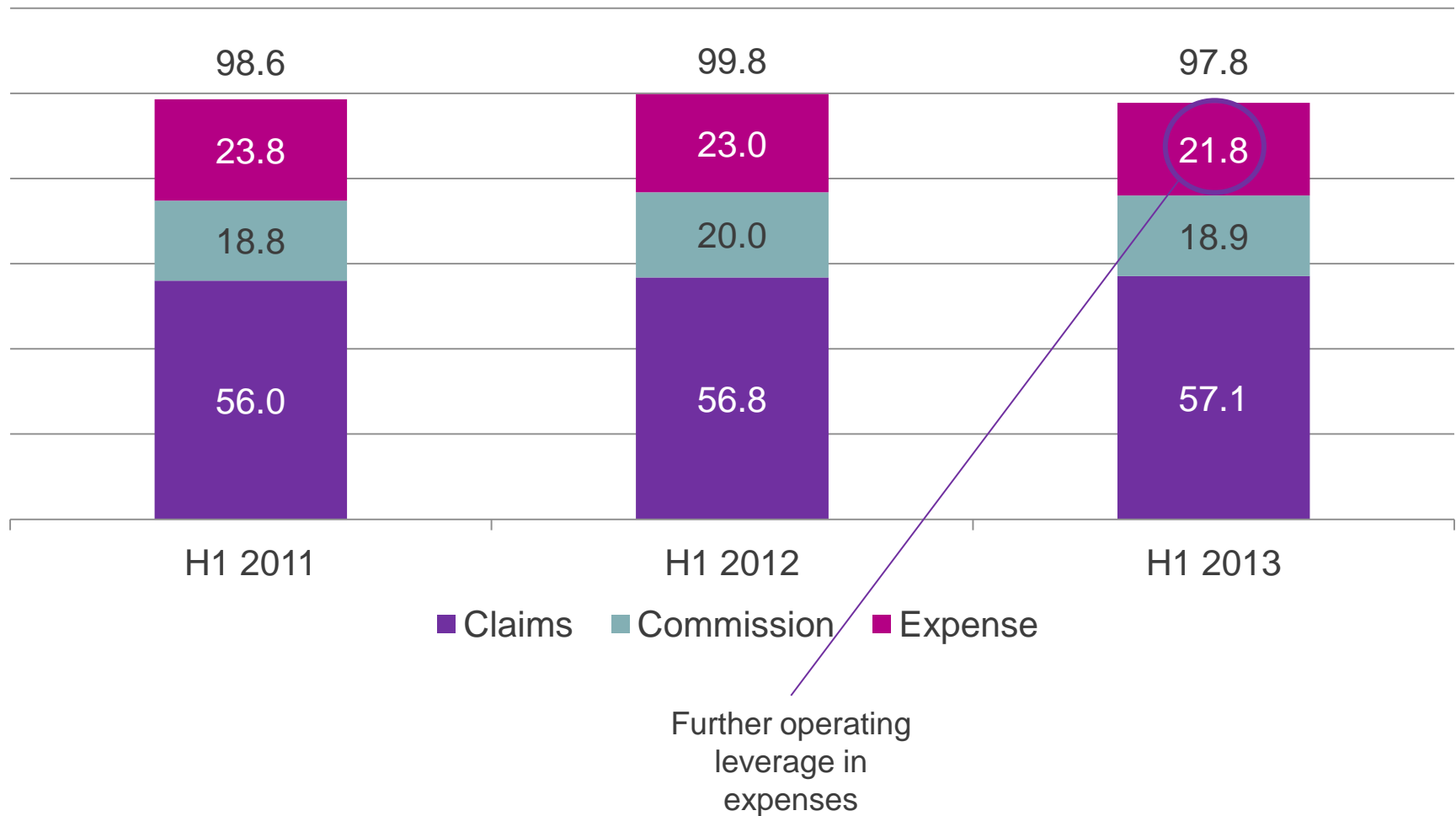
Turnaround in Italy.  
On track to break  
even by end of 2013

<sup>1</sup> Restated for changes to IAS19 "Employee Benefits"

....showing the results of our management actions

## Emerging markets – continued operating leverage....

Emerging Markets Combined Ratio (%)



....strong organic growth and improving profitability

## Scandinavia – Progress across the region....

Region	H1 2011	H1 2012	H1 2013
<b>Scandinavia NWP (£m)</b>			
Total Personal	529	529	563
Total Commercial	548	527	555
<b>Total</b>	<b>1,077</b>	<b>1,056</b>	<b>1,118</b>

<b>Scandinavia Underwriting Result (£m)</b>			
Sweden	136	74	62
Denmark	18	54	31
Norway	(10)	2	5
<b>Total</b>	<b>144</b>	<b>130</b>	<b>98</b>

Strong PYD in  
Swedish Motor and  
Personal Accident

Strong PYD in  
Danish Workers  
Compensation

Unusual level of large  
losses in Swedish  
Commercial Property

....offset by large losses in Sweden



# Canada – Underlying strength....

## Canada Underwriting Result (£m)

Region	H1 2011	H1 2012 <sup>1</sup>	H1 2013
Personal Household	(7)	20	17
Personal Motor	35	18	30
Commercial Property	2	5	(51)
Liability	14	10	8
Commercial Motor	5	7	8
Marine & Other	5	2	3
<b>Total</b>	<b>54</b>	<b>62</b>	<b>15</b>

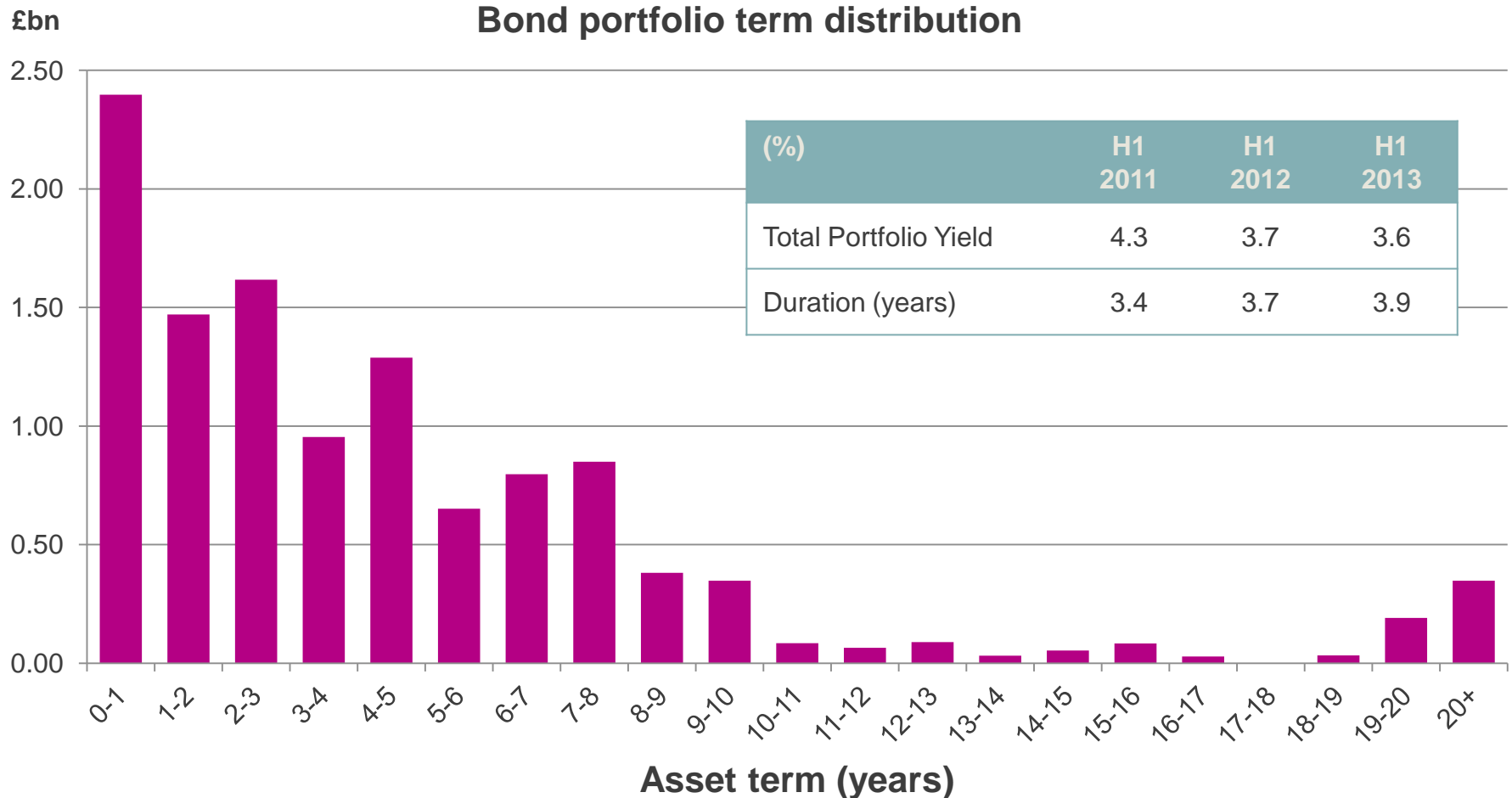
Major flooding in  
Alberta. Net  
Retention £48m

***Plus Toronto floods in July***

<sup>1</sup> Restated for changes to IAS19 "Employee Benefits"

....focused on helping our customers through extreme weather

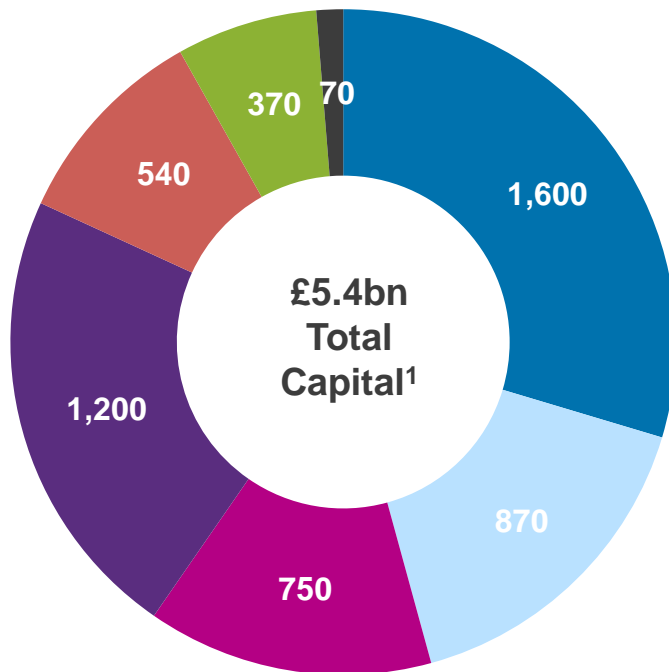
# Well placed to benefit from rising yields....



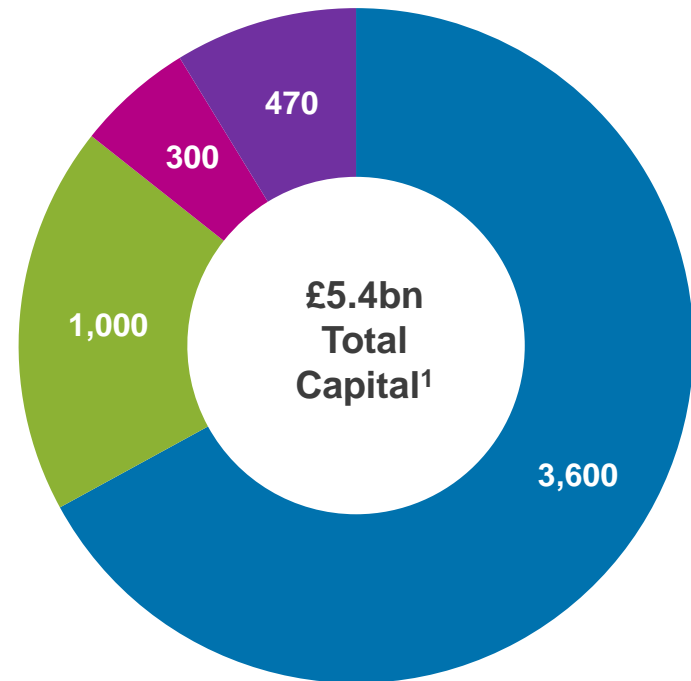
....with the drag from low yields diminishing

# Managing the portfolio to improve return on capital

## Economic Allocation of Total Capital by Region and Risk Type



- UK
- Canada
- Emerging Markets
- Group
- UK Legacy
- Scandinavia
- Western Europe



- Insurance Risk
- Investment Risk
- Operational Risk
- Pension Risk

<sup>1</sup> Represents £3.8bn shareholders equity and non-controlling interests, £1.4bn debt and prefs, plus £0.2bn IAS19 pension deficit.

<sup>2</sup> UK Legacy includes UK DB Pension Deficit and legacy insurance portfolios (e.g. asbestos reserves)

# Making solid progress....

	Allocation of Total Capital	Allocation of s'holders funds <sup>1</sup>	H1 2013 Operating Result	Allocated Profit after tax <sup>2</sup>	Annualised H1 2013 ROE <sup>3</sup>	FY 2012 ROE <sup>4</sup>
UK (excl Legacy, incl ESL)	1,600	1,080	123	80	15%	12%
UK Legacy	870	585	7	(4)		
Ireland & Italy	370	250	23	15	12%	1%
<b>UKWE Total</b>	<b>2,840</b>	<b>1,915</b>	<b>153</b>	<b>91</b>	<b>10%</b>	<b>6%</b>
Canada	750	500	47	27	11%	19%
Scandinavia	1200	800	137	94	23%	26%
Emerging Markets	540	365	23	13	7%	7%
Group Other <sup>5</sup>	70	45	(21)	(36)		
<b>Group Total</b>	<b>5,400</b>	<b>3,625</b>	<b>339</b>	<b>190</b>	<b>10%</b>	<b>9%</b>
Adjustments <sup>6</sup>				(10)	-	(1)%
<b>Reported</b>				<b>180</b>	<b>10%</b>	<b>8%</b>

<sup>1</sup> Pro rata allocation of shareholder funds at 31 December 2012, restated for changes to IAS19 "Employee Benefits"

<sup>2</sup> Based on allocation of central debt costs, pension costs and Group effective tax rate

<sup>3</sup> Based on 2x allocated H1 2013 profit after tax on opening allocated shareholders equity

<sup>4</sup> Based on allocation of 2012 profit after tax using same methodology, on closing allocated shareholder equity

<sup>5</sup> Group Other PAT includes all other non operating result items

<sup>6</sup> Removing preference dividends, minority interests

.... delivering improving returns across the portfolio

# Improving cash generation and strong cash remittances

	H1 2013	H1 2012
<b>Operating cash flow</b>	<b>392</b>	<b>312</b>
Tax paid	(100)	(139)
Interest paid	(76)	(75)
Pension deficit funding	(66)	(59)
<b>Cash generation</b>	<b>150</b>	<b>39</b>
Group dividends	(95)	(202)
Dividend to non controlling interests	(7)	-
Issue of share capital	4	7
Net movement of debt	3	(1)
Corporate activity	(30)	(12)
<b>Cash movement</b>	<b>25</b>	<b>(169)</b>

	Cash Flow to Group 2009 - 2012	% of post tax <sup>3</sup> operating profits
Scandinavia <sup>1</sup>	£1,490m <sup>4</sup>	139% <sup>4</sup>
Canada <sup>1</sup>	£380m	87%
EM <sup>1</sup>	£90m	64%
UKWE <sup>2</sup>	£710m	100%
<b>Total</b>	<b>£2,670m</b>	

<sup>1</sup> Represents dividends paid to Group

<sup>2</sup> Represents post tax UKWE operating profits accruing directly at Group level

<sup>3</sup> Taxed at average Group effective tax rate over the period 2009-12

<sup>4</sup> Includes special dividends from Scandinavia reflecting repatriation of pre 2009 profits

# Operational capital generation improving....

	H1 2013	FY 2012 <sup>1</sup>
<b>Profit After Tax</b>	<b>190</b>	<b>327</b>
Minority Interests	(5)	(7)
<b>Profit After Tax attributable to ordinary shareholders</b>	<b>185</b>	<b>320</b>
Dividends paid, including prefs, less scrip	(96)	(286)
<b>Operational movement in NAV</b>	<b>89</b>	<b>34</b>
Mark to Market movements in assets	(188)	115
Pension Fund movements	(99)	(137)
FX movements	63	(66)
Other	16	3
<b>Movement in NAV</b>	<b>(119)</b>	<b>(51)</b>
(Increase)/Decrease in intangibles	(19)	(73)
(Increase)/Decrease in goodwill	(11)	(57)
<b>Movement in TNAV</b>	<b>(149)</b>	<b>(181)</b>

<sup>1</sup> Restated for changes to IAS19 "Employee Benefits"

.....balance sheet affected by market movements

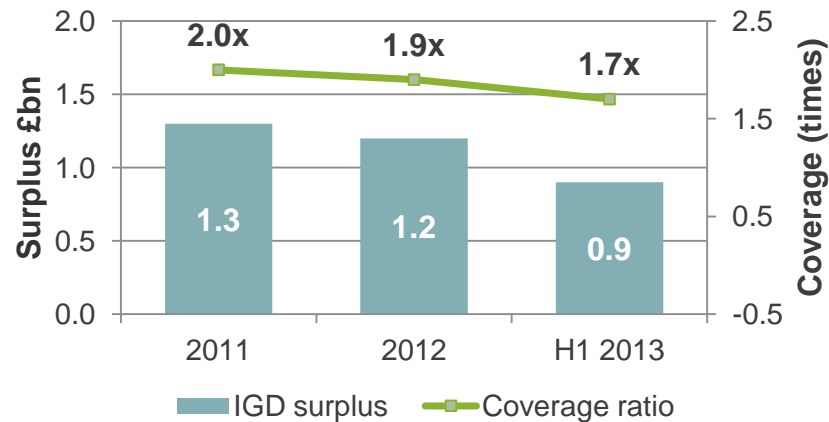


# Maintained robust capital positions.....

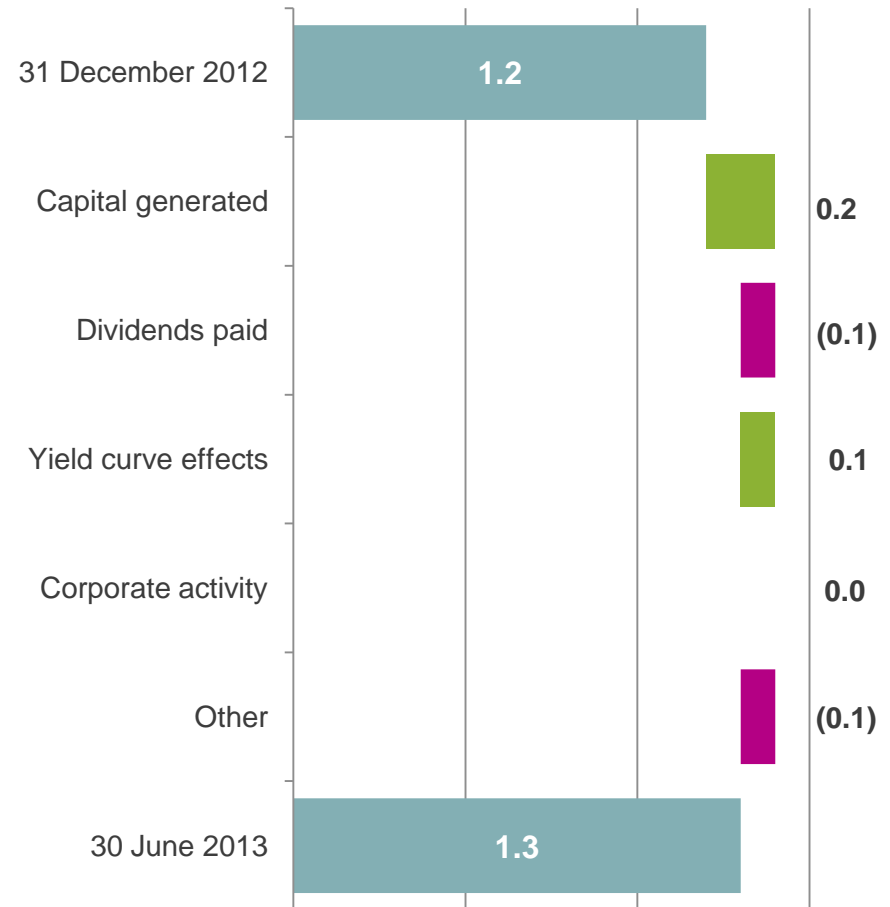
## Capital Scorecard

H1 2013	
IGD coverage	1.7x
ECA coverage (1 in 200)	1.6x
Ratings (S&P)	A+ (-ve outlook)
ICA	Not disclosed

## IGD capital surplus



## Economic capital surplus (£bn)



.....despite market volatility impacts on balance sheet

**Simon Lee**

Group Chief Executive

# The strategic agenda for RSA.....

- **Manage mature businesses for free capital generation and growth**
- **Turnaround in UK performance and break even in Italy**
- **Fully exploiting our Global Specialty capabilities**
- **Building scale in Emerging Markets**
- **Active portfolio management to improve returns on allocated capital**
- **Leveraging data and analytics in claims and underwriting**
- **Exploiting digital distribution capability**

.....focused on delivering shareholder value

# Turnaround in UK Commercial....

## Financial Highlights

### UK Commercial Lines - NWP

£m	H1 2012	H1 2013
Property	266	258
Liability	137	140
Motor	278	310
Marine	155	176
<b>Total</b>	<b>836</b>	<b>884</b>

### UK Commercial Lines – UW Result

£m	H1 2012 <sup>1</sup>	H1 2013
Property	9	28
Liability	(5)	(2)
Motor	(28)	(7)
Marine	5	6
<b>Total</b>	<b>(19)</b>	<b>25</b>

## Operational Highlights

- Combined ratio 93.5% (H1 2012: 101.3%)
- Pricing Discipline
  - Achieve technical price targets
  - Exit unprofitable lines
- Embedding broker relationships
  - Launching local “trading sites”
  - Enhance E-commerce offering
  - New broker proposition
- Robust cost management across the UK
  - Headcount down 11% (2012-2013)
  - Premises footprint down a quarter (2010-2013)

<sup>1</sup> Restated for changes to IAS19 “Employee Benefits”

.....delivering strong growth in earnings

# Leverage Global Specialty capability....

## GSL Regional NWP

£m	H1 2012	H1 2013
Scandinavia	130	138
Canada	121	136
Emerging Markets	87	93
UKWE	416	455
<b>Total</b>	<b>754</b>	<b>822</b>

## GSL Product NWP

£m	H1 2012	H1 2013
Marine	270	279
Risk Managed	320	353
Construction & Engineering	123	144
Renewable Energy	41	46

## Strategy

- Developing GSL capabilities
  - Leverage global network
  - Build on global wind leadership
  - Risk Managed in Latam and Canada
  - Large Construction projects
- Deep relationships with global brokers

## Outlook 2013

- Macroeconomics a significant driver
- Marine – focus on profitability
- Risk managed – remains highly competitive
- C&E – limited investment in C&E projects in UK/Europe, more opportunities EM
- Renewables – continued good growth, especially in Emerging Markets

.....to capitalise on our global presence

# Achieving focus in Emerging Markets

Scale Strategy	Market Position
Chile	1 <sup>st</sup>
Argentina	6 <sup>th</sup>
Uruguay	2 <sup>nd</sup>
Baltics	1 <sup>st</sup>
Middle East	Various
Scale in a Niche Strategy	Market Position
Brazil – Marine	2 <sup>nd</sup>
Poland – Direct	1 <sup>st</sup>
Russia – Direct	1 <sup>st</sup>
Work in Progress	
Asia	
Mexico	
Colombia	

## Scale Strategy

- Aim to be Top 5 player within country
- Latam – well positioned
- Baltics – well placed to benefit from economic recovery
- Middle East – leading Western Insurer

## Scale in a Niche Strategy

- Aim to be Top 3 within a niche
- Brazil – leading Marine insurer
- Poland/Russia – option on growth in the direct channel

..... In 11 key markets for RSA



## Positive momentum.....

Scandinavia	Growth in line with local GDP. COR in mid/high 80s
Canada	Strong organic growth supplemented by bolt on acquisitions. Medium term COR in low/mid 90s. 2013 affected by adverse weather
UK	Focus on profit over volume. Expect continuing improvement in COR
W. Europe	Profitable growth in Ireland. Italy to break even during 2013
Emerging Markets	Achieve £2.2bn of premiums by 2015 (including associates). Further operating leverage and reducing COR
NWP	Continued growth
COR	Better than 95% in 2013 assuming normal pattern of weather losses in the second half; further improvements to follow
Investment Income	Around £470m in 2013, rate of decline slowing
ROE	10-12% in 2013, further improvements to follow

.....full year guidance reaffirmed



Despite one of Canada's worst natural disasters in Calgary on 19 June, which flooded Stampede Park and the surrounding area, the 101<sup>st</sup> Calgary Stampede went ahead on July 5-14, 2013.

RSA has been working with all of our customers affected by the bad weather in Canada to get them back on track.

# Questions