

## **RSA Insurance Group plc**

**6 July 2015**

### **H1 & FY 2014 expense allocation restatement**

In line with the Group's focus on transparency of performance, we have revisited the methodology used to allocate expenses across the Group. This has identified certain expense items within the Group's P&L which we believe should be allocated into the underwriting result but which currently sit elsewhere in the P&L. These fall into two categories:

1. Investment expenses – historically a number of additional overheads have been allocated into this P&L line. This has been cleaned up and only genuine investment related expenses are now charged to this line.

2. Central expenses – a review has been conducted of the activities within the Group Corporate Centre and a revised allocation into the underwriting result has been determined.

The Group's H1 and FY 2015 results will be prepared on this new basis and therefore we intend to restate our H1 and FY 2014 results. The Group's operating result remains unchanged, as does ROTE, but this does reduce the underwriting result and increase the combined operating ratios that were reported in 2014. The impact for H1 2014 is to transfer £25m of cost into the underwriting result. For FY 2014 the impact is £49m. The Group's COR ratio increases from 100.0% to 100.6% for H1 2014 and from 98.8% to 99.5% for FY 2014.

The following tabs set out the restatements at both H1 2014 and FY 2014 at a regional level. Corresponding restatements to the class of business splits for each region will be made available along with the Group's 2015 interim results.

## H1 2014 restatement

As published at H1 2014 & restated for COR methodology<sup>1</sup> and segment<sup>2</sup> changes made at FY 2014, and segment<sup>3</sup> changes made in H1 2015

	Scandi	Canada	UK	Ireland	Lat Am	Central functions	Non-Core	Group H1 2014
	£m	£m	£m	£m	£m	£m	£m	£m
<b>Net written premiums</b>	<b>1,059</b>	<b>680</b>	<b>1,257</b>	<b>152</b>	<b>311</b>	<b>(41)</b>	<b>351</b>	<b>3,769</b>
Net earned premiums	890	766	1,444	175	351	11	375	4,012
Net incurred claims	(615)	(542)	(958)	(193)	(216)	(14)	(262)	(2,800)
Total Commission (earned)	(27)	(108)	(285)	(21)	(89)	(3)	(53)	(586)
Total Expenses (earned)	(143)	(116)	(205)	(25)	(65)	-	(70)	(624)
<b>Underwriting result</b>	<b>105</b>	<b>-</b>	<b>(4)</b>	<b>(64)</b>	<b>(19)</b>	<b>(6)</b>	<b>(10)</b>	<b>2</b>
Investment income	59	41	70	6	23	1	23	223
Investment expenses	(5)	(2)	(4)	(1)	(2)	-	(1)	(15)
Unwind of discount	(19)	(1)	(2)	-	(6)	(1)	(13)	(42)
<b>Investment result</b>	<b>35</b>	<b>38</b>	<b>64</b>	<b>5</b>	<b>15</b>	<b>-</b>	<b>9</b>	<b>166</b>
<b>Insurance result</b>	<b>140</b>	<b>38</b>	<b>60</b>	<b>(59)</b>	<b>(4)</b>	<b>(6)</b>	<b>(1)</b>	<b>168</b>
Central expenses	-	-	-	-	-	(27)	-	(27)
<b>Operating result</b>	<b>140</b>	<b>38</b>	<b>60</b>	<b>(59)</b>	<b>(4)</b>	<b>(33)</b>	<b>(1)</b>	<b>141</b>
Net gains/losses/FX								142
Interest								(58)
Non-operating charges								(23)
Non-recurring charges								(133)
<b>Profit before tax</b>								<b>69</b>
Tax								(63)
<b>Profit after tax</b>								<b>6</b>
% Loss ratio	69.2%	70.8%	66.3%	110.2%	61.6%	130.1%		69.8%
% Earned commission ratio	3.0%	14.1%	19.7%	12.2%	25.3%	26.0%		14.6%
% Earned expense ratio	16.0%	15.2%	14.3%	14.2%	18.6%	(1.7)%		15.6%
<b>Combined operating ratio (%)</b>	<b>88.2%</b>	<b>100.1%</b>	<b>100.3%</b>	<b>136.6%</b>	<b>105.5%</b>	<b>154.4%</b>		<b>100.0%</b>

<sup>1</sup> At FY 2014 the Group's combined operating ratio (COR) was changed to be calculated on an 'earned' basis. Full details of the calculation can be found on page 31 of the Group's 2014 preliminary results announcement.

<sup>2</sup> At FY 2014 the presentation of the Group's financial performance was separated between 'core' and 'non-core' operations. Core operations comprise Scandinavia, Canada (excluding Noraxis), UK (excluding Legacy), Ireland, Latin America and Central functions. Non-core operations comprise the Baltics, Poland, Noraxis, Hong Kong, Singapore, China, Italy, Middle East, Russia, UK Legacy, and associate holdings in Thailand and India.

<sup>3</sup> During Q1 2015 the Group announced the sale of its UK Engineering Inspection business and this has now been transferred into 'non-core'.

## Expense allocation restatement

	Scandi	Canada	UK	Ireland	Lat Am	Central functions	Non-Core	Group H1 2014
	£m	£m	£m	£m	£m	£m	£m	£m
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	(9)	(4)	(5)	(1)	(5)	-	(1)	(25)
	(9)	(4)	(5)	(1)	(5)	-	(1)	(25)
	-	-	-	-	-	-	-	-
	4	-	1	1	1	-	1	8
	(5)	(4)	(4)	-	(4)	-	-	(17)
	-	-	-	-	-	17	-	17
	(5)	(4)	(4)	-	(4)	17	-	-

## Restated H1 2014

	Scandi	Canada	UK	Ireland	Lat Am	Central functions	Non-Core	Group H1 2014
	£m	£m	£m	£m	£m	£m	£m	£m
<b>Net written premiums</b>	<b>1,059</b>	<b>680</b>	<b>1,257</b>	<b>152</b>	<b>311</b>	<b>(41)</b>	<b>351</b>	<b>3,769</b>
Net earned premiums	890	766	1,444	175	351	11	375	4,012
Net incurred claims	(615)	(542)	(958)	(193)	(216)	(14)	(262)	(2,800)
Total Commission (earned)	(27)	(108)	(285)	(21)	(89)	(3)	(53)	(586)
Total Expenses (earned)	(152)	(120)	(210)	(26)	(70)	-	(71)	(649)
<b>Underwriting result</b>	<b>96</b>	<b>(4)</b>	<b>(9)</b>	<b>(65)</b>	<b>(24)</b>	<b>(6)</b>	<b>(11)</b>	<b>(23)</b>
Investment income	59	41	70	6	23	1	23	223
Investment expenses	(1)	(2)	(3)	-	(1)	-	-	(7)
Unwind of discount	(19)	(1)	(2)	-	(6)	(1)	(13)	(42)
<b>Investment result</b>	<b>39</b>	<b>38</b>	<b>65</b>	<b>6</b>	<b>16</b>	<b>-</b>	<b>10</b>	<b>174</b>
<b>Insurance result</b>	<b>135</b>	<b>34</b>	<b>56</b>	<b>(59)</b>	<b>(8)</b>	<b>(6)</b>	<b>(1)</b>	<b>151</b>
Central expenses	-	-	-	-	-	(10)	-	(10)
<b>Operating result</b>	<b>135</b>	<b>34</b>	<b>56</b>	<b>(59)</b>	<b>(8)</b>	<b>(16)</b>	<b>(1)</b>	<b>141</b>
Net gains/losses/FX								142
Interest								(58)
Non-operating charges								(23)
Non-recurring charges								(133)
<b>Profit before tax</b>								<b>69</b>
Tax								(63)
<b>Profit after tax</b>								<b>6</b>
% Loss ratio	69.2%	70.8%	66.3%	110.2%	61.6%	130.1%		69.8%
% Earned commission ratio	3.0%	14.1%	19.7%	12.2%	25.3%	26.0%		14.6%
% Earned expense ratio	17.0%	15.8%	14.6%	14.7%	19.9%	-		16.2%
<b>Combined operating ratio (%)</b>	<b>89.2%</b>	<b>100.7%</b>	<b>100.6%</b>	<b>137.1%</b>	<b>106.8%</b>	<b>156.1%</b>		<b>100.6%</b>

# FY 2014 restatement

## As published at FY 2014 & restated for segment<sup>1</sup> changes made in H1 2015

	Scandi	Canada	UK	Ireland	Lat Am	Central functions	Non-Core	Group FY 2014
	£m	£m	£m	£m	£m	£m	£m	£m
<b>Net written premiums</b>	<b>1,759</b>	<b>1,510</b>	<b>2,569</b>	<b>295</b>	<b>690</b>	<b>(42)</b>	<b>684</b>	<b>7,465</b>
Net earned premiums	1,752	1,536	2,850	328	700	17	691	7,874
Net incurred claims	(1,219)	(1,056)	(1,861)	(340)	(400)	(20)	(485)	(5,381)
Total Commission (earned)	(68)	(215)	(585)	(42)	(178)	(7)	(100)	(1,195)
Total Expenses (earned)	(278)	(235)	(390)	(53)	(124)	(5)	(123)	(1,208)
<b>Underwriting result</b>	<b>187</b>	<b>30</b>	<b>14</b>	<b>(107)</b>	<b>(2)</b>	<b>(15)</b>	<b>(17)</b>	<b>90</b>
Investment income	112	82	144	11	46	2	42	439
Investment expenses	(11)	(3)	(7)	(1)	(5)	-	(2)	(29)
Unwind of discount	(37)	(2)	(5)	-	(14)	(2)	(23)	(83)
<b>Investment result</b>	<b>64</b>	<b>77</b>	<b>132</b>	<b>10</b>	<b>27</b>	<b>-</b>	<b>17</b>	<b>327</b>
<b>Insurance result</b>	<b>251</b>	<b>107</b>	<b>146</b>	<b>(97)</b>	<b>25</b>	<b>(15)</b>	<b>-</b>	<b>417</b>
Central expenses	-	-	-	-	-	(51)	(1)	(52)
<b>Operating result</b>	<b>251</b>	<b>107</b>	<b>146</b>	<b>(97)</b>	<b>25</b>	<b>(66)</b>	<b>(1)</b>	<b>365</b>
Net gains/losses/FX								476
Interest								(119)
Non-operating charges								(42)
Non-recurring charges								(405)
<b>Profit before tax</b>								<b>275</b>
Tax								(199)
<b>Profit after tax</b>								<b>76</b>
% Loss ratio	69.6%	68.7%	65.3%	103.5%	57.2%	114.8%		68.3%
% Earned commission ratio	3.9%	14.0%	20.5%	12.6%	25.5%	39.2%		15.2%
% Earned expense ratio	15.9%	15.3%	13.7%	16.2%	17.6%	32.4%		15.3%
<b>Combined operating ratio (%)</b>	<b>89.4%</b>	<b>98.0%</b>	<b>99.5%</b>	<b>132.3%</b>	<b>100.3%</b>	<b>186.4%</b>		<b>98.8%</b>

## Expense allocation restatement

	Scandi	Canada	UK	Ireland	Lat Am	Central functions	Non-Core	Group FY 2014
	£m	£m	£m	£m	£m	£m	£m	£m
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	(18)	(9)	(10)	(1)	(9)	-	(2)	(49)
	<b>(18)</b>	<b>(9)</b>	<b>(10)</b>	<b>(1)</b>	<b>(9)</b>	<b>-</b>	<b>(2)</b>	<b>(49)</b>
	-	-	-	-	-	-	-	-
	8	1	-	1	4	-	2	16
	-	-	-	-	-	-	-	-
	<b>8</b>	<b>1</b>	<b>-</b>	<b>1</b>	<b>4</b>	<b>-</b>	<b>2</b>	<b>16</b>
	<b>(10)</b>	<b>(8)</b>	<b>(10)</b>	<b>-</b>	<b>(5)</b>	<b>-</b>	<b>-</b>	<b>(33)</b>
	-	-	-	-	-	33	-	33
	<b>(10)</b>	<b>(8)</b>	<b>(10)</b>	<b>-</b>	<b>(5)</b>	<b>33</b>	<b>-</b>	<b>-</b>

## Restated FY 2014

Scandi	Canada	UK	Ireland	Lat Am	Central functions	Non-Core	Group FY 2014
£m	£m	£m	£m	£m	£m	£m	£m
1,759	1,510	2,569	295	690	(42)	684	7,465
1,752	1,536	2,850	328	700	17	691	7,874
(1,219)	(1,056)	(1,861)	(340)	(400)	(20)	(485)	(5,381)
(68)	(215)	(585)	(42)	(178)	(7)	(100)	(1,195)
(296)	(244)	(400)	(54)	(133)	(5)	(125)	(1,257)
169	21	4	(108)	(11)	(15)	(19)	41
112	82	144	11	46	2	42	439
(3)	(2)	(7)	-	(1)	-	-	(13)
(37)	(2)	(5)	-	(14)	(2)	(23)	(83)
72	78	132	11	31	-	19	343
241	99	136	(97)	20	(15)	-	384
-	-	-	-	-	(18)	(1)	(19)
241	99	136	(97)	20	(33)	(1)	365
							476
							(119)
							(42)
							(405)
							275
							(199)
							76
69.6%	68.7%	65.3%	103.5%	57.2%	114.8%		68.3%
3.9%	14.0%	20.5%	12.6%	25.5%	39.2%		15.2%
16.9%	15.9%	14.1%	16.7%	18.9%	31.0%		16.0%
90.4%	98.6%	99.9%	132.8%	101.6%	185.0%		99.5%

<sup>1</sup> During Q1 2015 the Group announced the sale of its UK Engineering Inspection business and this has now been transferred into 'non-core'.