

# 2014 PRELIMINARY RESULTS

26 February 2015



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# AGENDA

- 1 Introduction
- 2 Strategy & Action Plan Progress
- 3 2014 Preliminary Results
- 4 Q&A

# INTRODUCTION

# 'ACTION PLAN': GOOD PROGRESS IN 2014. MEDIUM-TERM TARGETS REMAIN OUR GOAL

## Strategic focus

- £810m proceeds from announced disposals (Baltics, Poland, Noraxis, China, Hong Kong, Singapore, Italy Thailand and India), £550m of which completed to date. c.£500m expected gains, well ahead of valuation
- Target remaining disposals by end of 2015

## Financial strength and quality

- Capital actions 2014: £773m Rights Issue; £810m disposals; £400m debt refinancing
- Net Tangible Assets up £1.2bn, IGD surplus of £1.8bn, ECA surplus of £0.9bn, despite FX/ interest rate headwinds
- Credit ratings improved to A (S&P), A2 (Moody's)
- Balance sheet improvements continued: Focus on reserves, economic assumptions and intangibles

## Improving long-term performance

- Action plan improved through intensive operational review
- Underwriting actions are already benefiting loss ratios (current year underlying loss ratio, 'CYULLR', improving to record low in 2014)
- Cost plan intensified, complemented by IT investment plans. Total Group FTE down 16% in 2014. New 2017 cost savings target of greater than £250m

# FINANCIAL PERFORMANCE; ENCOURAGING, DESPITE HEADWINDS

Income per 'guidance' – £7.5bn NWP (14% below 2013, underlying 2%<sup>1</sup> down):

- Headwinds from market conditions, FX, and start of year challenges
- Targeting return to underlying growth in 2015, though modest given economic outlook and profit improvement priorities

Underwriting result (£90m up 58% vs 2013):

- Record level of current year profit<sup>2</sup> (£190m up 96% vs 2013) as turnaround begins
- Ireland losses and UK reserve strengthening cost c.£190m
- Scandinavia best performer, Canada weather affected, UK still underachieving but £17m current year profit represents progress, Latin America earthquake affected

Other P&L items:

- Core business controllable costs down 6% 'real' at constant exchange
- Investment income £439m, as planned – reflecting falling yields
- Completed disposal gains of £342m
- Restructuring charges (for cost programme) £110m
- Other write downs including; £99m goodwill & intangibles; £98m discount rate; £92m deferred tax asset
- Pre-tax profit £275m (2013: £244m loss)
- Final dividend declared (2p per share)

**STRATEGY**

# FOCUSED; STRONGER; BETTER

## Our ambition for RSA:

- 1 A leading international general insurer focused on Northern developed markets, plus a growing business in Latin America
- 2 Aiming to compete only where we can win. And to win where we compete
- 3 Well capitalised, achieving sustainable attractive returns
- 4 Strong operational delivery; transparent and easy to understand
- 5 Enduring customer appeal

In short, winning for customers and winning for shareholders

# WHAT WILL MAKE RSA ATTRACTIVE TO CUSTOMERS AND SHAREHOLDERS



## Attractive to customers...

- ① Expertise
- ② Value for money
- ③ Consistency and support
- ④ Understanding and tailored services
- ⑤ Excellent service and attitude
- ⑥ Proactive and "e-enabled"

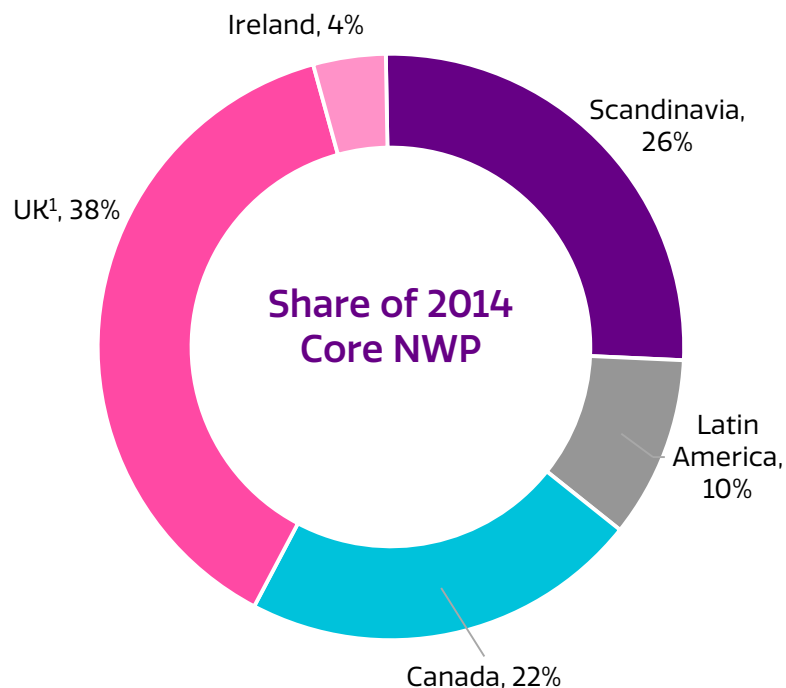
Ambition; Upper quartile NPS, growing business profitably

## ...And to Shareholders

- ① Leading positions in stable markets
- ② Well balanced business by geography, customer, channel and product
- ③ Strong brands and reputation
- ④ Group synergies of expertise, cost and revenues
- ⑤ Capital efficiency from diversification
- ⑥ Disciplined and focused execution
- ⑦ Cash generative business model

Ambition; Upper quartile COR, attractive ROTE and quality cash flows

# RSA'S BUSINESS: BUILT AROUND LEADERSHIP POSITIONS



Scandinavia
Market size <sup>2</sup> : £21bn
No.3 market position overall
Only multi-national insurer in the region
55% Personal, 45% Commercial lines
Principally direct distribution

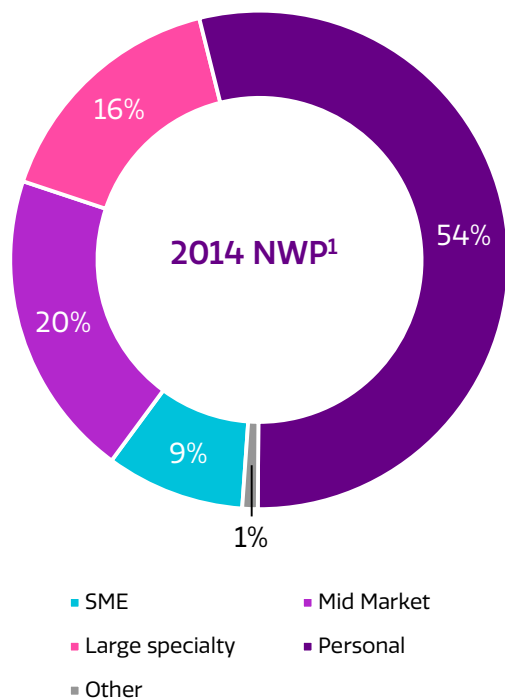
UK
Market size <sup>2</sup> : £42bn
Top 4 market position overall
46% Personal, 54% Commercial lines
Broker, direct and affinity distribution

Canada
Market size <sup>2</sup> : £27bn
No.3 market position overall
69% Personal, 31% Commercial lines
Broker, affinity and direct distribution

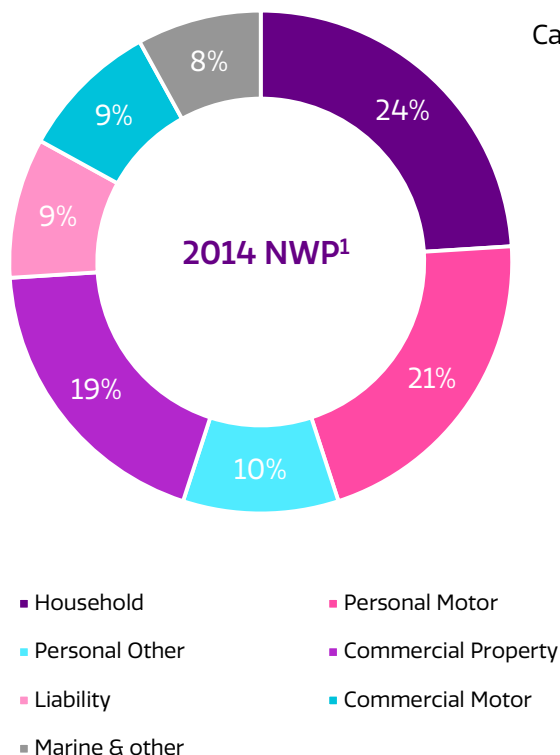
Latin America
Market size <sup>2</sup> : £62bn
No.1 Chile, No.2 Uruguay, No. 6 Argentina, Leading niche position in Brazil.
Operations in Mexico and Colombia

# RSA'S BUSINESS: ATTRACTIVE & BALANCED

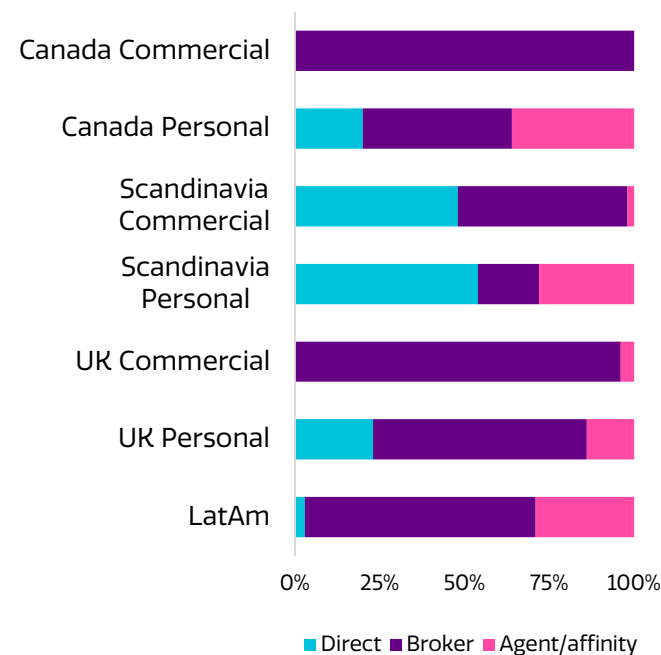
By customer...



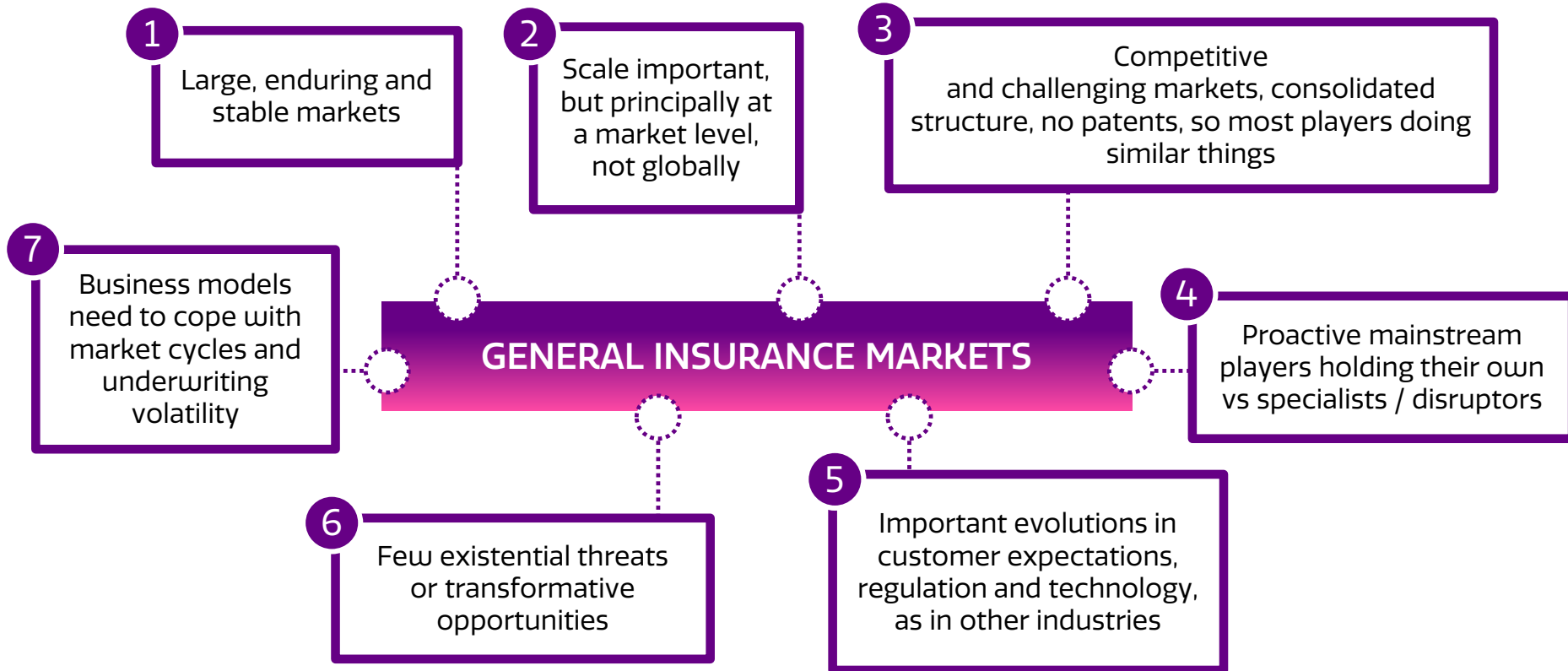
...By product...



...and by distribution channel

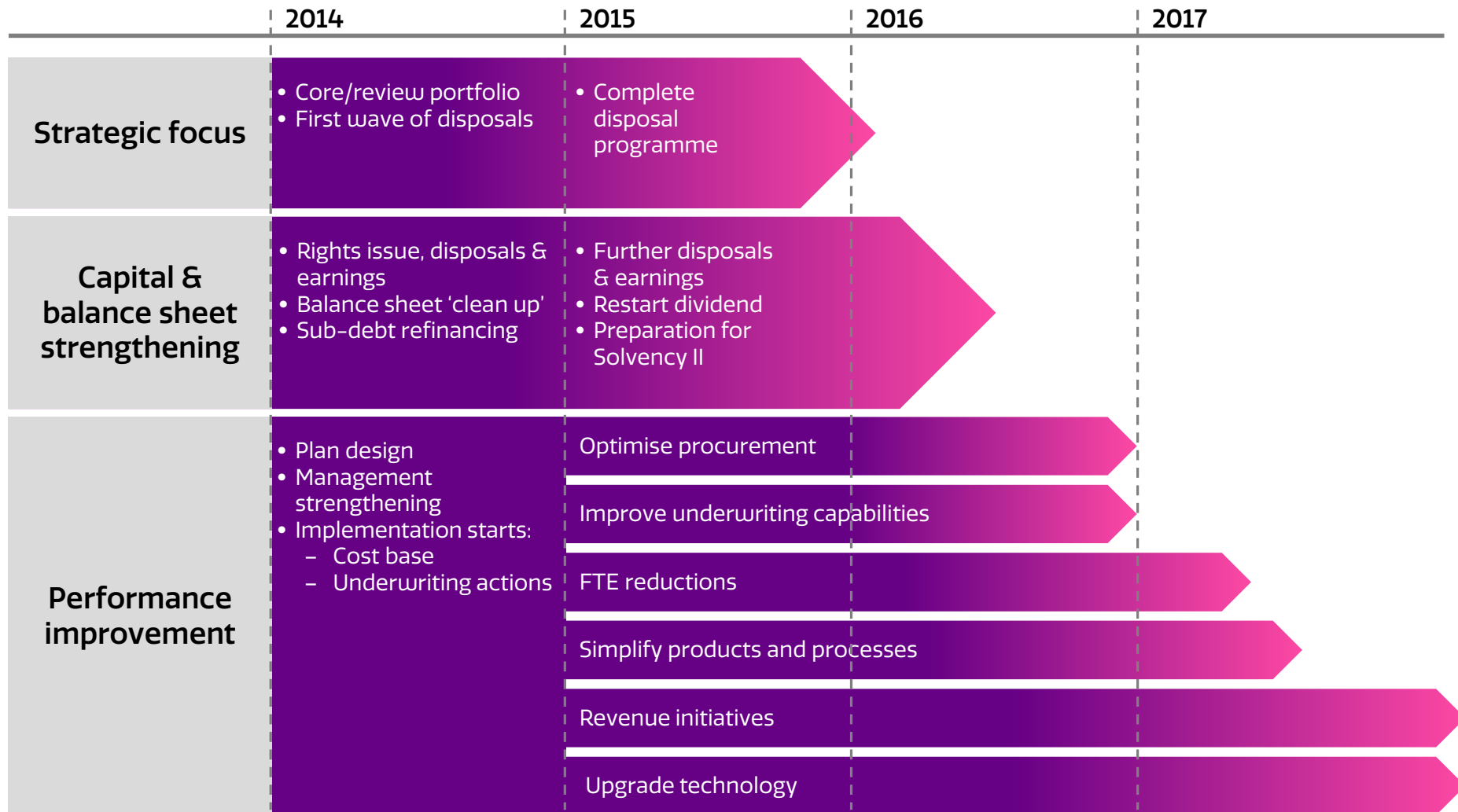


# MARKET CHARACTERISTICS INFORMING RSA'S STRATEGY



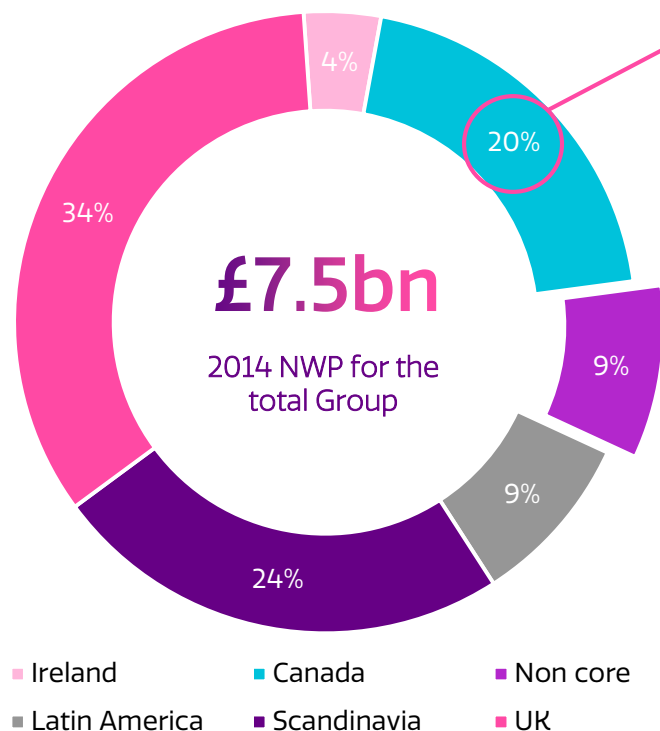
# ACTION PLAN

# ACTION PLAN: TARGET TIMELINE



# STRATEGIC FOCUS: DISPOSALS

Split between core and 'non-core' portfolios



Disposal of Noraxis (Canadian brokerage business) completed. 2013 attributable net profit £6m

## Announced disposals:

- Latvia (completed)
- Lithuania (completed)
- Estonia (completed)
- Poland (completed)
- China
- Hong Kong
- Singapore
- Thailand (completed)
- Italy
- India

2013 NWP<sup>2</sup>: £613m  
2013 UW profit<sup>2</sup>: £24m  
2013 Profit after tax<sup>3</sup>: £27m

## Remaining portfolio under review<sup>1</sup>:

- Middle East
- Russia

2013 NWP<sup>2</sup>: £174m  
2013 UW profit<sup>2</sup>: £6m  
2013 Profit after tax: £2m

<sup>1</sup> not all will necessarily be sold

<sup>2</sup> (Note: above excludes India and Thailand. India 2014 NWP at 100% level £130m (2013: £141m); Thailand 2014 NWP at 100% level £179m (2013: £176m); total associate result in RSA Group accounts £nil (2013: £2m loss))

<sup>3</sup> Excluding goodwill write-down

# STRATEGIC FOCUS: DISPOSALS

11

Disposals announced to date

6

Disposals completed

2015

Target completion of remaining disposals

£810m

Announced sales proceeds

£590m

Expected TNAV benefit

2.6x

P/TNAV for all deals in aggregate (ex Noraxis)

£613m

NWP disposed<sup>1</sup>

£35m

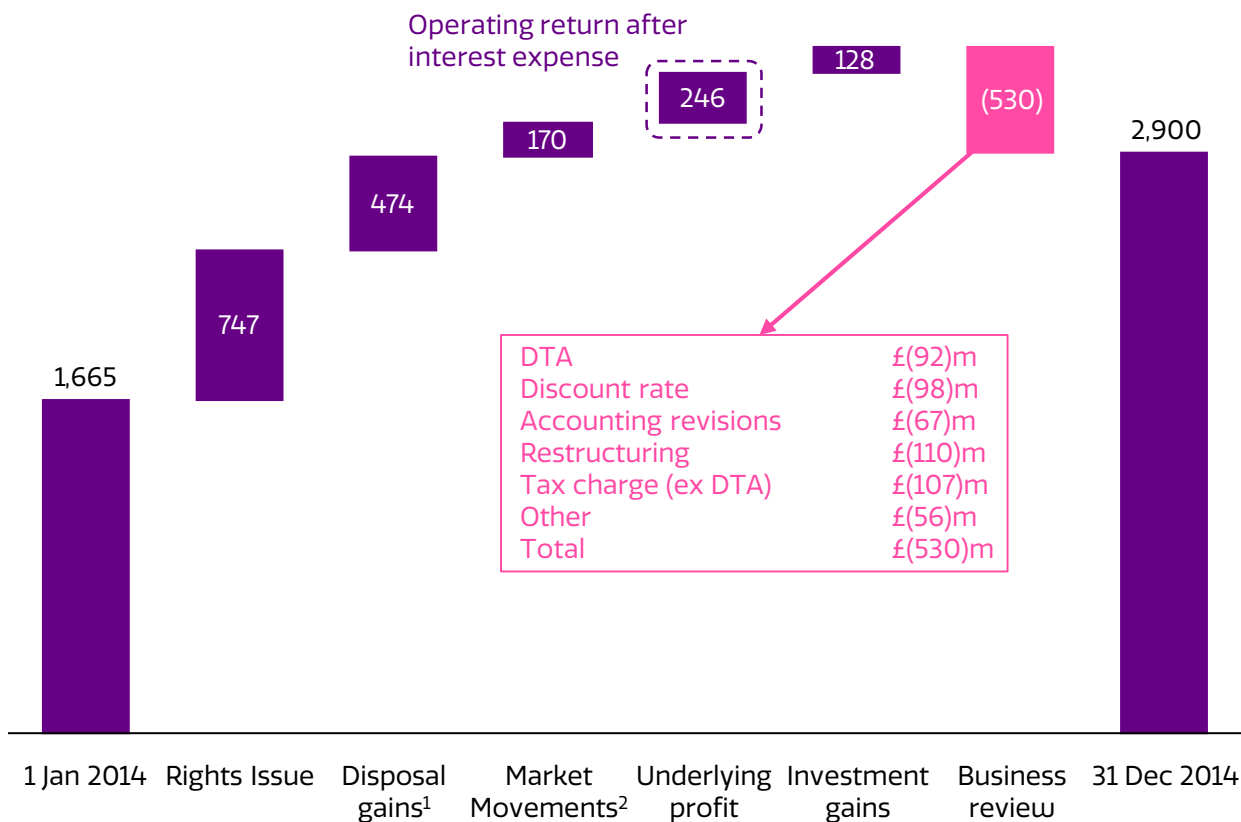
Net profit disposed<sup>2</sup>

£220m

TNAV disposed

# CAPITAL STRENGTHENING

## Net Tangible Assets (£m)



### Credit rating

- Upgraded to A 'stable' on 28 Feb 2014

### Subordinated debt

- Completed £400m bond issue in October at coupon of 5.1%
- Called outstanding £450m issue in December (coupon 8.5%)

# BALANCE SHEET TRANSPARENCY AND QUALITY

1

Clean-up actions:

- Goodwill and intangibles
- Deferred tax asset
- Discount rates on long tail business
- Other accounting items

2

Prior year reserve strengthening:

- UK (professional indemnity; legacy; deafness, asbestos and abuse)
- Ireland

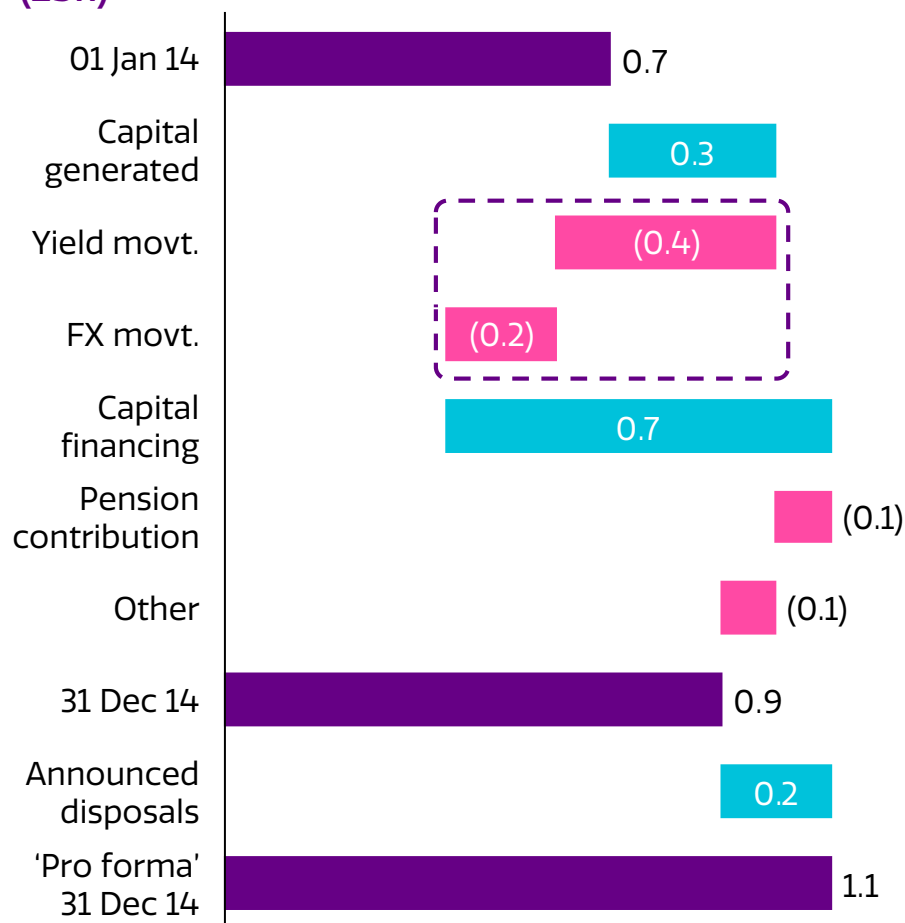
3

Enhanced financial disclosure:

- Detailed breakdowns of underwriting performance
- Combined ratio and expense allocation methodology changes
- Reserve margin disclosure
- Enhanced pension disclosure
- Capital disclosures

# CAPITAL APPROACH UNCHANGED

## Economic capital surplus movement in 2014 (£bn)



### Capital approach

Targeting 'A' category ratings & 'basket' of complementary capital indicators (regulatory, economic, peer group)

- Likely to translate to NWP : TNAV ratio 35 – 45% range
- Solvency II a key 2015 focus. Anticipate H1 update
- Solvency II, FX/Yield impacts, diversification benefits and pension moves can impact relationship of TNAV/ Capital need. Pressure currently upwards

# PERFORMANCE IMPROVEMENT PLANS AND ACTIONS

## Management Approach

How close to 'best in class' performance can we get in our markets; and how fast?

For each business:

- ① Compare to 'best in class' in revenue generation, underwriting excellence, costs and technology
- ② Identify capability gaps and roadmap to improve
- ③ Validate and sequence change initiatives

## Improvement Actions

Performance improvement actions address 5 categories:

- ① Revenue generating capabilities
- ② Underwriting improvements
- ③ Cost efficiency and reduction
- ④ Technology enabling
- ⑤ People

# CUSTOMER & REVENUE CAPABILITY IMPROVEMENT THEMES

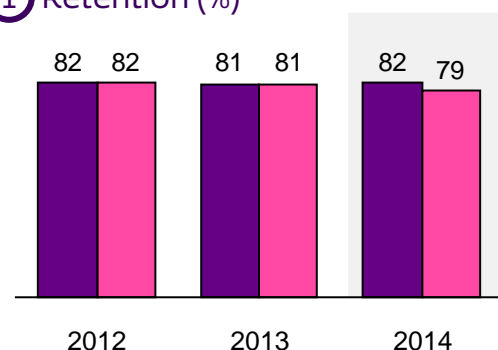
	Opportunities	Improvement Plans
1 Salesforce effectiveness	<ul style="list-style-type: none"> <li>• Improve "sales" culture</li> <li>• Better affinity propositions</li> <li>• More intensive broker relationships</li> </ul>	<ul style="list-style-type: none"> <li>• Performance management</li> <li>• Restructured incentive schemes</li> <li>• Account management and pipeline management</li> </ul>
2 Trading capabilities	<ul style="list-style-type: none"> <li>• Under resourced in select underwriting areas (e.g. GSL)</li> <li>• Trading flexibility</li> </ul>	<ul style="list-style-type: none"> <li>• Build better trading skills (structuring deals, negotiating)</li> <li>• Build deeper talent bench in target industrial verticals (e.g., Energy, Transportation)</li> </ul>
3 Pricing	<ul style="list-style-type: none"> <li>• Improve granularity in pricing segmentation</li> <li>• Sophistication in pricing data and capabilities</li> <li>• Increase speed to market of pricing changes</li> </ul>	<ul style="list-style-type: none"> <li>• Develop GLM pricing models and expand range of risk bands with more granular and accurate pricing (PL Broker, Affinity, SME)</li> <li>• Build market-backed view of pricing (while maintaining technical discipline and profitability)</li> </ul>
4 e-Commerce	<ul style="list-style-type: none"> <li>• Speed up improvement of digital capability</li> <li>• Rollout online policy servicing</li> <li>• Further develop small/medium commercial online sales capability</li> <li>• Build out telematics proposition</li> </ul>	<ul style="list-style-type: none"> <li>• Increased volume of straight through processing in SME</li> <li>• Improved online servicing capability for key high volume personal products</li> <li>• Build premiums from existing telematics products and roll-out new products</li> </ul>

# CUSTOMER RETENTION RATES AND SATISFACTION HELD UP WELL IN 2014

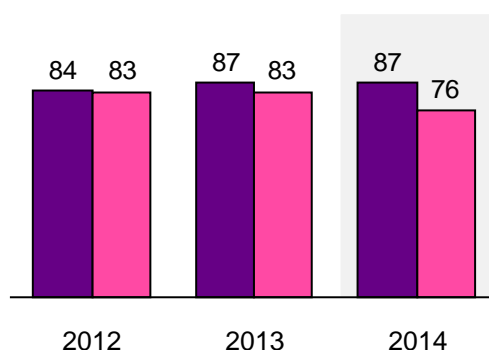


Scandinavia

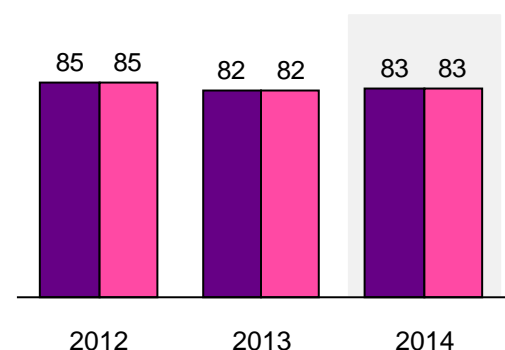
## ① Retention (%)



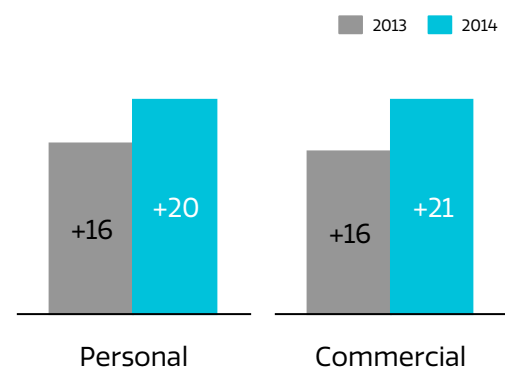
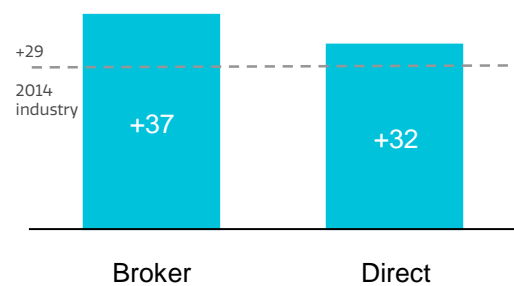
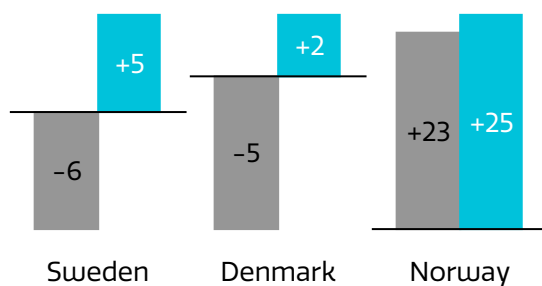
Canada



UK



## ② Satisfaction (NPS<sup>1</sup>)



# GOOD PROGRESS IN 2014 ON UNDERWRITING IMPROVEMENTS AND PORTFOLIO ACTIONS

## 1 Portfolio actions: Canadian Commercial Lines current year underwriting result has improved by \$25m and significant improvement in Sweden commercial motor Loss ratio

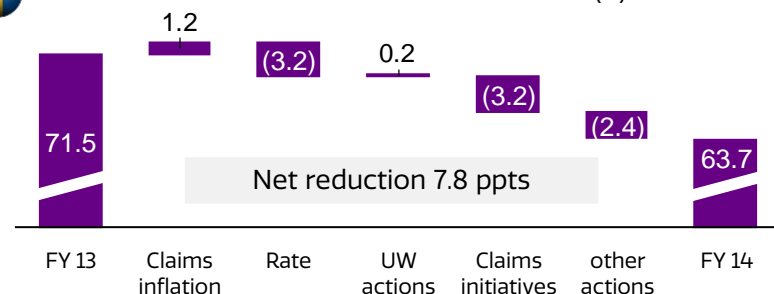


### Canadian commercial lines portfolio review actions

- (A) Property Decile review: Rate of 11.1% on bottom decile
- (B) Liability Remediation: Action taken on 269 accounts – average rate increase of 9.6%
- (C) Underperforming brokers: 7 brokers exited with average loss ratio of 116%
- (D) Reduced Large Loss Volatility: Rating action and exit from selected large commercial property accounts



### Sweden Commercial motor CYUL loss ratio walk<sup>1</sup> (%)

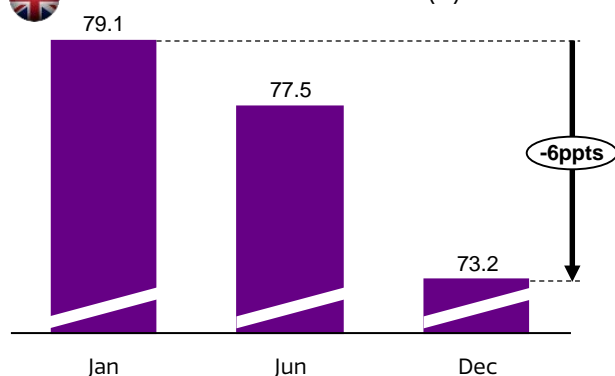


<sup>1</sup> excludes claim handling expenses

## 2 Underwriting expertise and discipline: UK Pet written loss ratio has fallen consistently over 2014 and Scandinavian personal pricing review has revealed improvement opportunities



### UK Pet: Written Loss Ratio 2014 (%)



### External review of Scandinavian Personal pricing

There were several areas of strength noted through the review:

- ✓ Data quality for all products assessed was very high.
- ✓ Risk premium models for Sweden Motor were very sophisticated
- ✓ Testing appears to be robust

Some areas identified presenting significant opportunities for development:

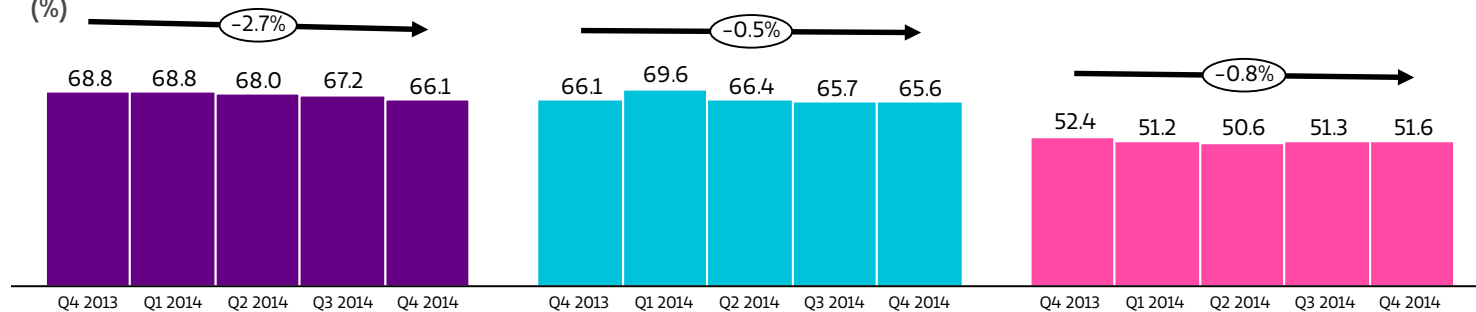
- ⬆ Risk premium models (excluding Sweden Motor) could be enhanced.
- ⬆ Street pricing and price optimisation fell some way behind
- ⬆ Standardising reporting suites and ensuring clarity on definitions/ format could be of considerable business benefit

# CY UNDERLYING LOSS RATIOS ACROSS THE CORE BUSINESS HAVE BROADLY IMPROVED OVER 2014

## Personal

CY underlying Loss ratio development and total improvement, Q4 2013 – Q4 2014

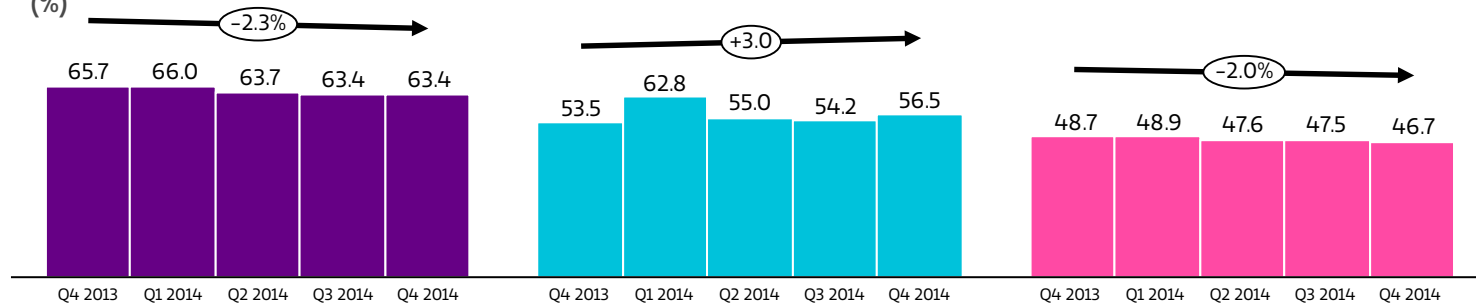
(%)



## Commercial

CY underlying Loss ratio development and total improvement, Q4 2013 – Q4 2014

(%)



Scandinavia



Canada



UK

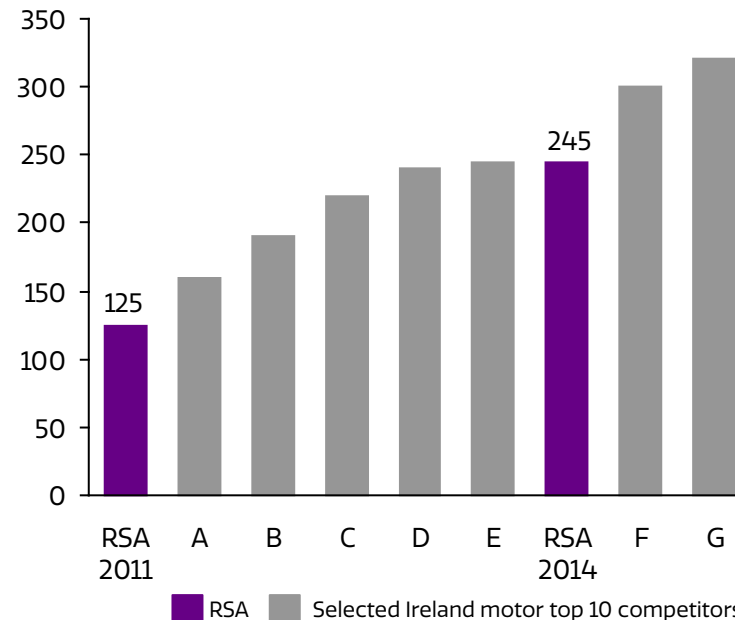
# IRELAND ACTION PLAN 2014 – 17

## Strong progress in remediation during 2014, with more to do

- 1 Management team entirely new in 2014
- 2 Cost reduction plans in place
- 3 Underwriting actions aim to improve loss ratio to current year profit in 2016
- 4 Reserving action largely complete: Some 2015 impacts still possible
- 5 Target ROCA > 12% in 2017

## Illustration of change in RSA reserving approach in Ireland

Ireland motor outstanding claims/ net earned premium, selected competitors (%)<sup>1</sup>

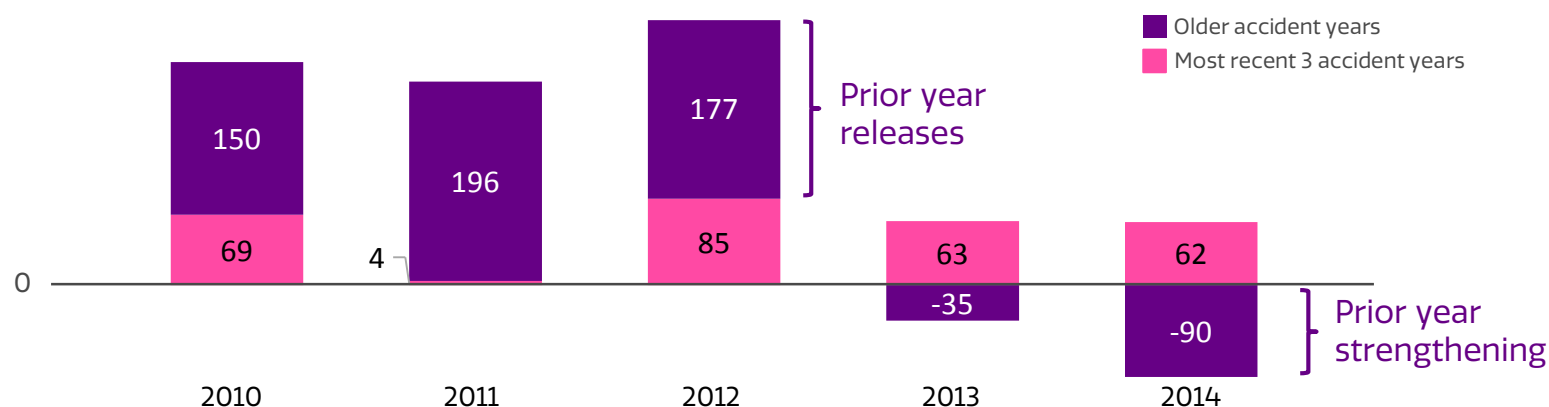


<sup>1</sup> Competitors A – G are amongst the top 10 competitors in Ireland (ratios based on 2013 reported data)

# RESERVING AND PRIOR YEAR RESULTS

RSA historic results were bolstered by 'lumpy' prior year reserve releases and margin releases

Prior year development (excluding margin movements), 2010-14 (£m)

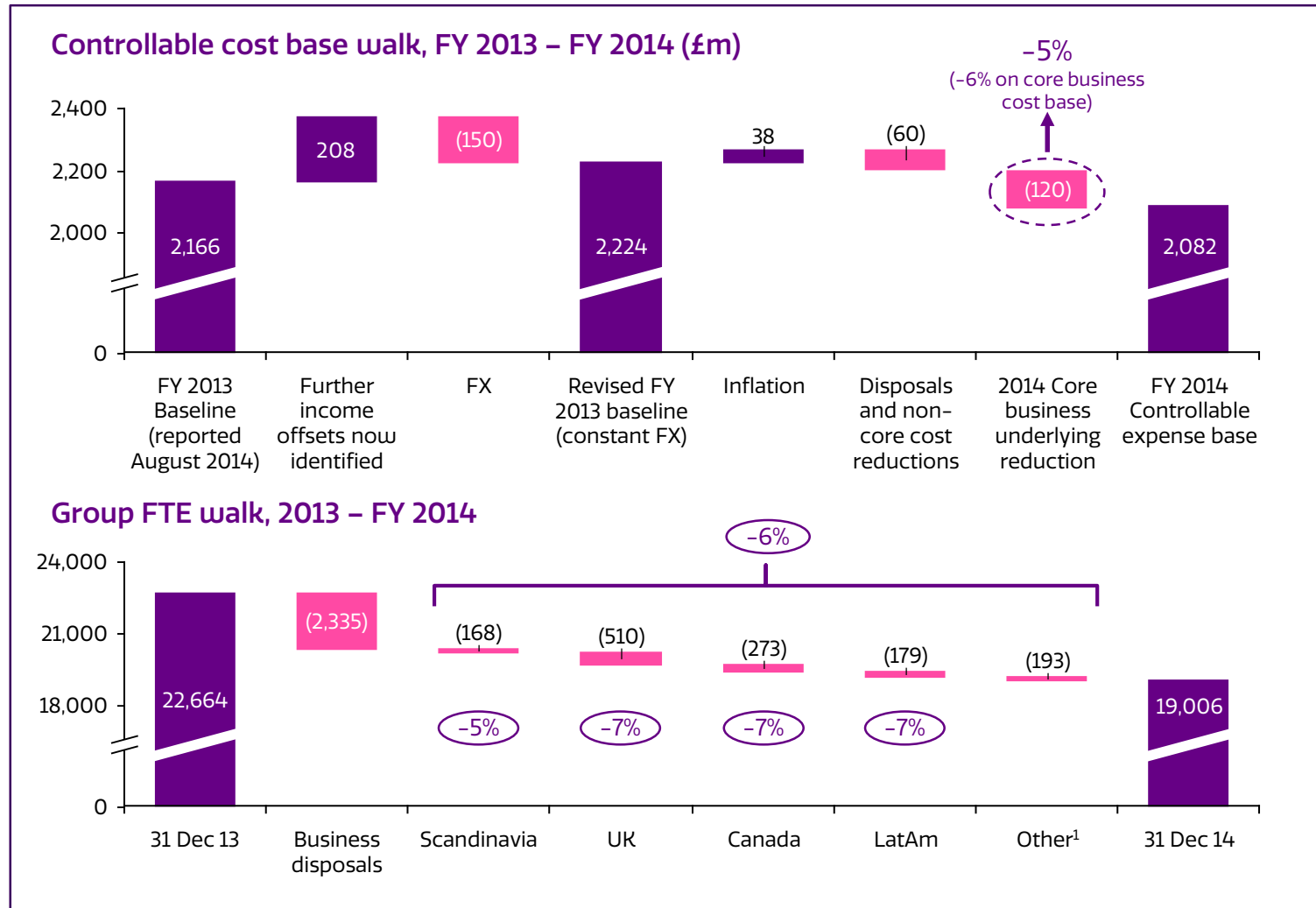


- ① 2013 year-end reserve reviews found no 'black hole'. ADC cover also gave protection. External reserve reviews 1-2% above RSA booked, pre-margin
- ② 2014 reserving should have mostly 'caught up', though few 'implicit' cushions
- ③ In normal years positive PYD expected, but under 1% NEP and volatile if margin kept constant

# COST REDUCTION THEMES

	Opportunities	Improvement Actions
1 Simplify End-to-End processes	<ul style="list-style-type: none"> <li>• Consolidate some office locations within country</li> <li>• Improve process management and workflow solutions</li> </ul>	<ul style="list-style-type: none"> <li>• Co-location of centres of excellence</li> <li>• 'Lean' process optimisation</li> </ul>
2 Optimise procurement	<ul style="list-style-type: none"> <li>• Improve structuring of major sourcing contracts</li> <li>• Long 'tail' of small suppliers</li> </ul>	<ul style="list-style-type: none"> <li>• Renegotiation and/or retendering of major outsourcing contracts</li> <li>• Full procurement review</li> </ul>
3 Streamline spans and layers	<ul style="list-style-type: none"> <li>• Reduce middle management layering</li> <li>• High number of low ratio spans of control</li> </ul>	<ul style="list-style-type: none"> <li>• Review of all business structure charts</li> <li>• Redundancy programme</li> <li>• Optimise support functions</li> <li>• Adjust compensation to market levels</li> </ul>
4 Simplify products	<ul style="list-style-type: none"> <li>• Product proliferation due to distribution expansion</li> </ul>	<ul style="list-style-type: none"> <li>• Review of portfolio</li> <li>• 80/20 rule applies</li> </ul>
5 Transform IS	<ul style="list-style-type: none"> <li>• Multiple data centres</li> <li>• High cost of ownership</li> <li>• Inefficient legacy platforms</li> <li>• Expensive and inflexible outsourced contracts</li> </ul>	<ul style="list-style-type: none"> <li>• Sun set legacy systems</li> <li>• Renegotiate key contracts</li> <li>• Rationalise data centres/ infrastructure</li> <li>• Move to component based architecture</li> <li>• Selective use of cloud technology</li> </ul>

# OPERATIONAL COSTS: PROGRESS IN 2014



# WE ARE INCREASING COST REDUCTION TARGETS

Existing 2016 target

New 2016 target

2017 target

In excess of:

£180m<sup>1</sup>

In excess of:

£210m<sup>1</sup>

In excess of:

£250m<sup>1</sup>

Costs	Reduction target range
Scandinavia	10–15%
Canada	2–8%
UK	20–25%
Ireland	20–25%
LatAm & EM head office	4–8%
Head office	20–25%

Regional productivity	NWP/ FTE % improvement <sup>2</sup>
Scandinavia	15–20%
Canada	20–25%
UK	22–27%
Ireland	15–20%
LatAm	10–15%
Total Group	15–20%

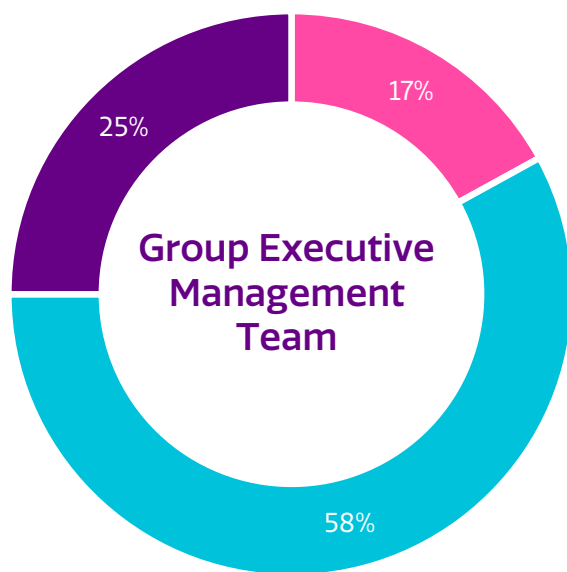
- Cost to achieve:

c.1.5x

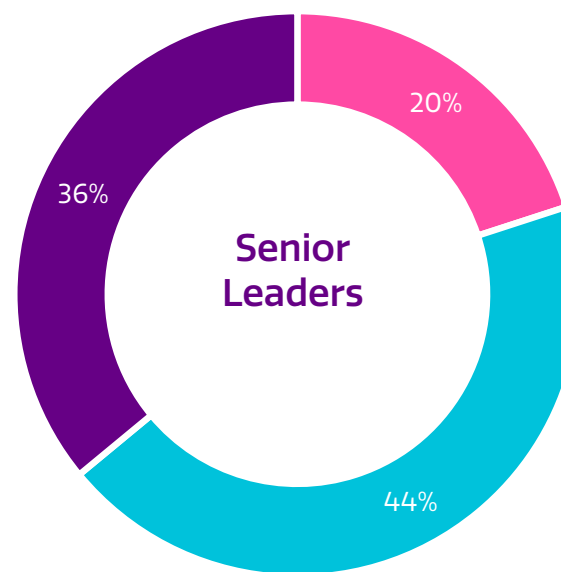
- Combination of redundancy costs (straight through to P&L) and movement in capitalised IT costs

# MANAGEMENT RESHAPING

75% of our Group Executive have been newly appointed since January 2014



20% of our Senior Leaders are new to RSA

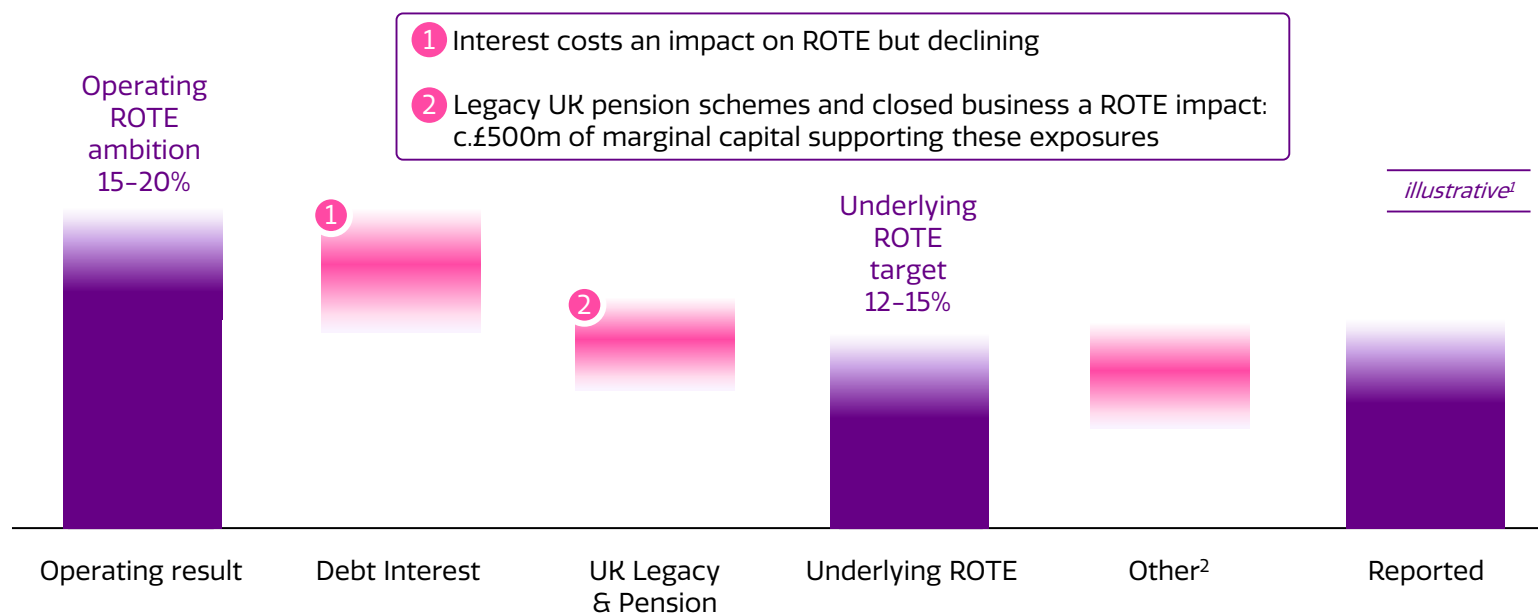


■ New to RSA ■ New to Role ■ Unchanged

# BUILDING SUSTAINABLY TO 12–15% UNDERLYING ROTE

## Targeting strong improvements in underwriting profit and combined ratio

- Quality profits not reliant on margin release or unsustainable reserve releases
- Headwinds from FX and interest rate declines
- Investment income conservatively achieved
- Capital required is a drag on ROTE in a low rate, strong Sterling scenario
- Capital to build further. Legacy a continued impact. Some NTA items volatile – DTA, pension, discount rates, investment MTM)



# 2015 OUTLOOK

## We have 5 focus areas for 2015

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- 1 Complete the job on strategic focus
- 2 Build capital further. Capital target 'true-up' post Solvency II
- 3 Return to modest underlying premium growth
- 4 Improve underwriting result<sup>1</sup> in every major business
- 5 Build momentum in performance improvement plans

# 2014 PRELIMINARY RESULTS

# 2014 RESULTS OVERVIEW

£m (unless stated)	2014	2013	
Net written premiums	7,465	8,664	Portfolio actions
Underwriting result	90	57	
COR (%) <sup>1</sup>	98.8	99.4	
Investment result	327	365	Average book yield down c.40bps 2014 v 2013
Insurance result	417	422	
Operating result	365	349	
Profit before tax	275	(244)	
Profit / (loss) after tax	76	(338)	£92m DTA write down
Return on tangible equity (%)	3.6%	(16.7)%	
Underlying return on tangible equity (%) <sup>2</sup>	9.7%	6.9%	
	31 Dec 2014	31 Dec 2013	
TNAV per share (p)	286	202	Includes £747m rights issue net proceeds and £474m from disposals
Tangible net asset value	2,900	1,665	

Current year record profit of £190m (core business ex Ireland)

Net gains £476m; Reorganisation costs £276m; Discount rate change £98m

# PROFIT BEFORE TAX OF £275M WITH GAINS OFFSETTING ONE-OFF COSTS

£m	2014	2013
Operating result	365	349
Gains	476	32
Interest	(119)	(117)
Non-operating charges	(42)	(57)
Non-recurring charges	(405)	(451)
Profit before tax	275	(244)
Tax	(199)	(94)
Profit after tax	76	(338)

## Comprises:

- £69m equity disposal gains;
- £30m unrealised gains on Property assets;
- £25m Swedish property sale;
- £342m disposal gains:
  - £164m Noraxis
  - £124m Baltics
  - £29m Poland
  - £21m Thailand
  - £4m Scandinavian Agri.

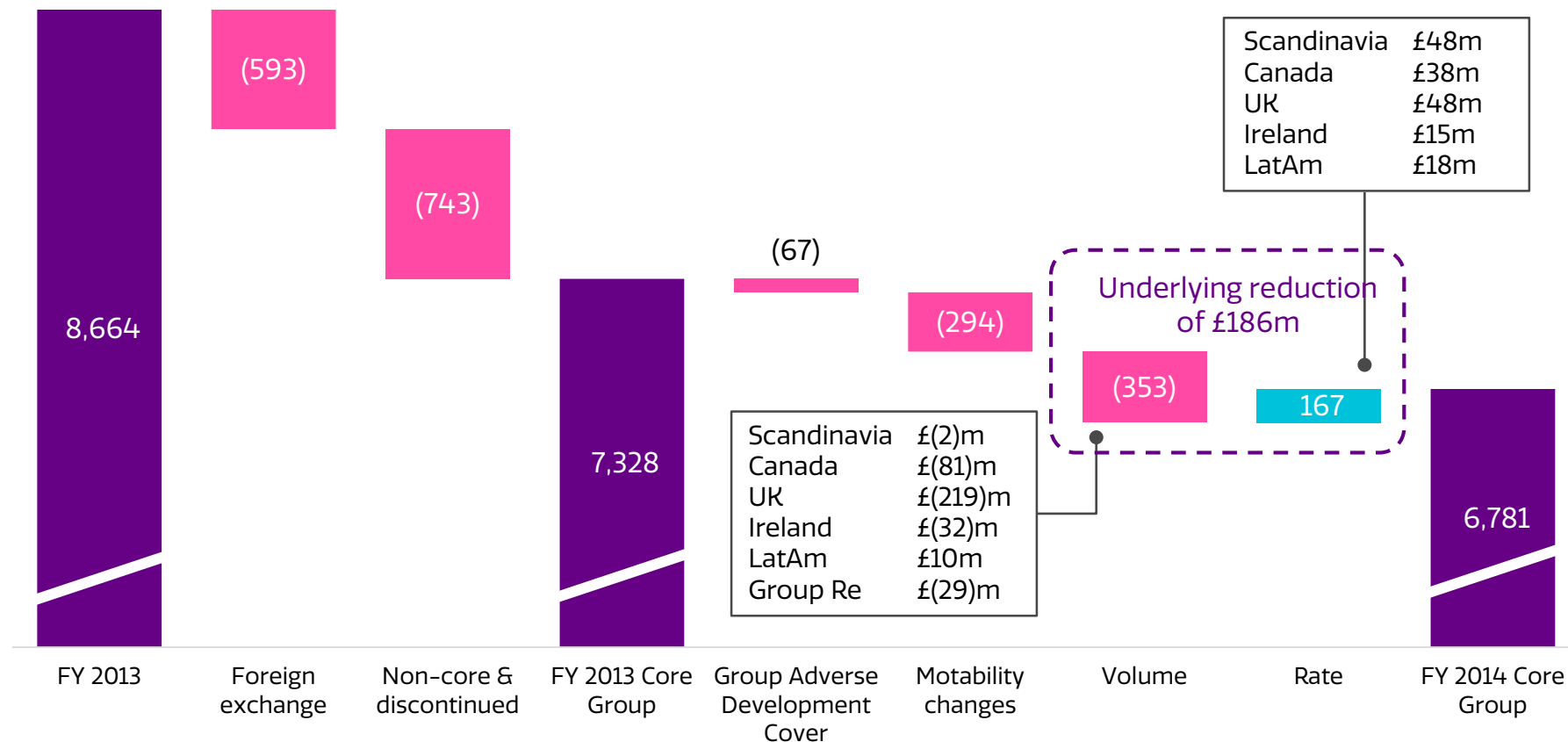
## Includes:

- Reorganisation costs of £276m;
- £98m economic assumption changes
- £31m Solvency II and other transaction costs

UK and Ireland deferred tax write down of £92m

# PREMIUM REDUCTION DRIVEN BY FX, MANAGEMENT ACTION AND COMPETITIVE MARKETS

Net written premiums (£m) 2014 v 2013



# HEADLINE UNDERWRITING PROFIT OF £90M INCLUDES CHARGES FOR IRELAND AND UK RESERVE ADDITIONS

	Underwriting profit						COR	
	2014 (£m)			2013 (£m)			2014 (%)	2013 (%)
	Total	CY	PY	Total	CY	PY		
Scandinavia	187	166	21	225	102	123	89.4	88.1
Canada	30	(8)	38	(13)	(32)	19	98.0	100.7
UK	15	17	(2)	13	2	11	99.5	99.6
Latin America	(2)	6	(8)	20	17	3	100.3	97.5
Group Re	(15)	9	(24) <sup>1</sup>	2	8	(6)	-	-
Core ex-Ireland	215	190	25	247	97	150	96.9	96.7
Ireland	(107)	(62)	(45)	(220)	(93)	(127)	132.3	166.2
Core Total	108	128	(20)	27	4	23	98.6	99.6
Total non-core	(18)	(7)	(11)	30	8	22	-	-
Group Total	90	121	(31)	57	12	45	98.8	99.4

# IRELAND UPDATE: 2014 RESULTS

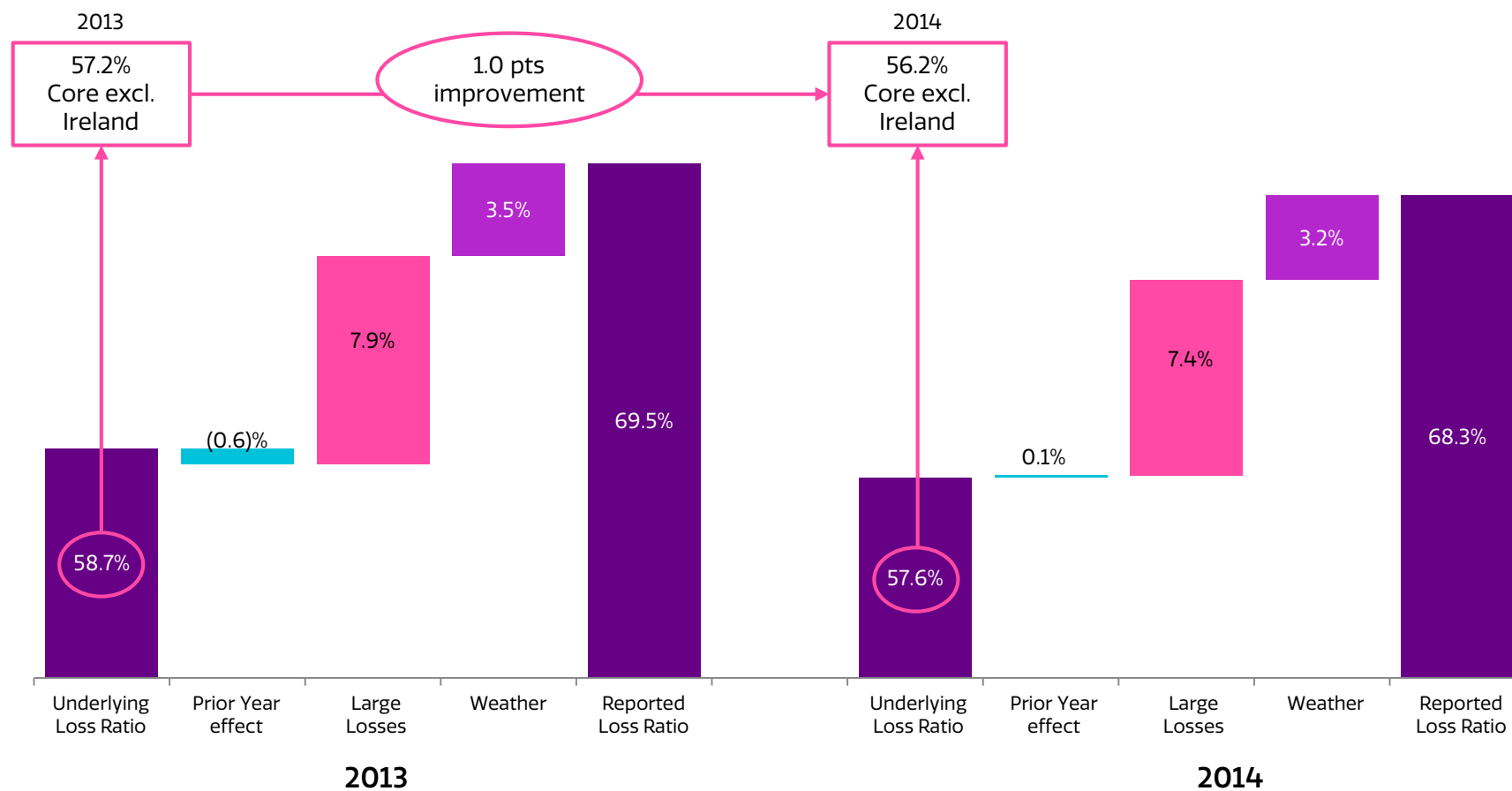
£m	2014	2013
Net written premiums	295	327
Current year underwriting	(62)	(93)
Prior year underwriting	(45)	(127)
Underwriting result	(107)	(220)
Investment result	10	14
Insurance result	(97)	(206)
Impairment (goodwill and other intangibles)	(61)	-
Other non-operating charges (incl. reorganisation costs)	(36)	(6)
Loss before tax	(194)	(212)

No substantive new problems found, but cost of remediation and underwriting improvement greater than start of year forecast

- Claims case reserve review not completed until Q1 & updated again in Q4
- Current year loss ratios worse than expected when run on updated claims data. Loss patterns volatile as data cleansed
- Other financial items needed remediation
- Two 'in year items' – weather 1.0 points above plan, £8m impact of new High Court ruling

# GROUP CURRENT YEAR UNDERLYING LOSS RATIO IMPROVING

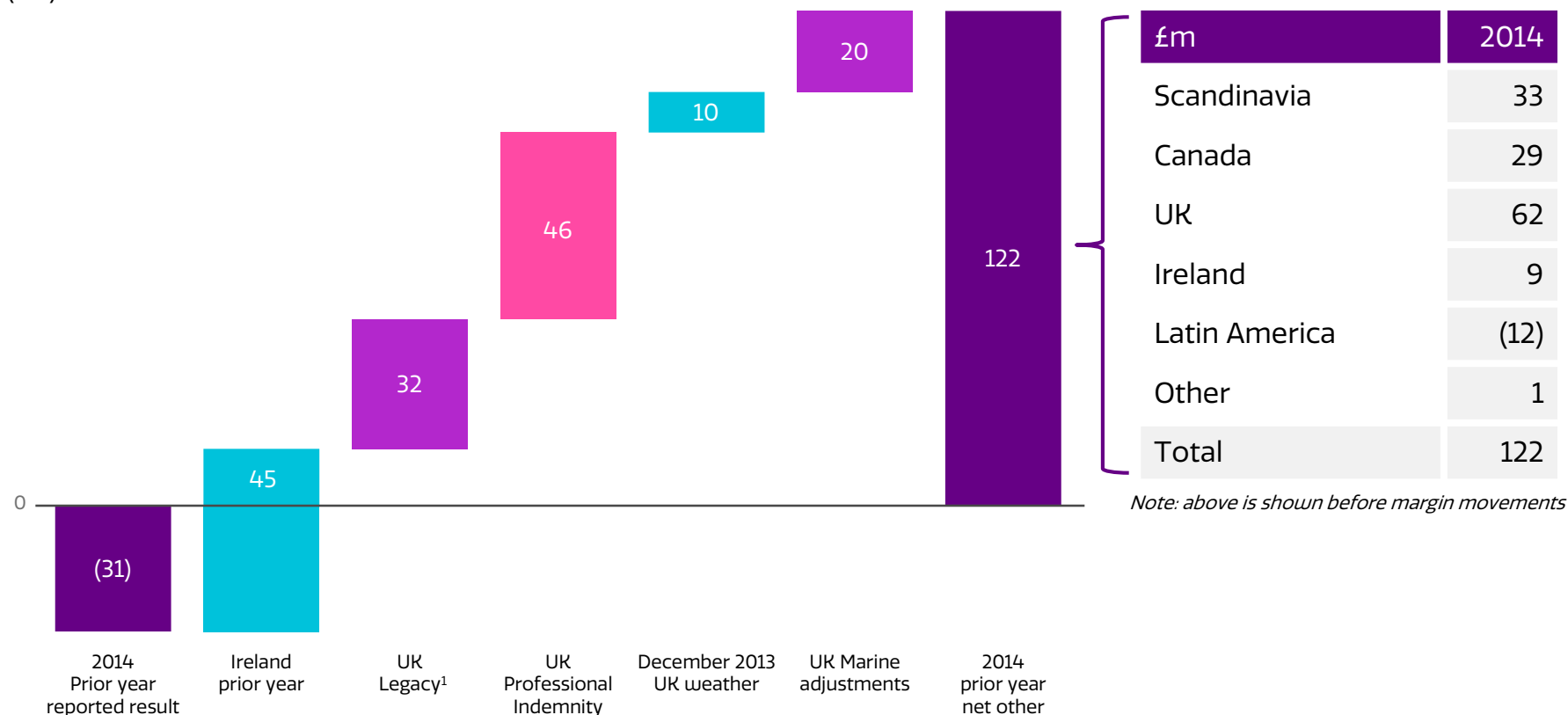
Underlying to reported Loss Ratio walk, 2013-14 (%)



Five year averages: Weather 3.0%; Large losses 8.4%<sup>1</sup>

# PRIOR YEAR RESULT IMPACTED BY IRELAND AND UK. CANADA AND SCANDINAVIA 'NORMALISING'

(£m)



# SUMMARISED GROUP BALANCE SHEET FY 2014

£m	2014	2013	
Goodwill and other intangible assets	800	1,103	Movement Includes £55m goodwill write down and £44m intangible write down, disposals, plus transfers into assets held for sale
Total investments and cash	14,228	13,796	
Other assets	6,182	6,928	
Of which tax assets	201	362	Includes DTA £180m & CTA £21m (2013: £302m & £60m). Movement includes DTA impairment of £92m in UK and Ireland
Assets associated with continuing operations	21,210	21,827	
Assets held for sale	808	103	
Total assets	22,018	21,930	
Shareholders' funds	3,825	2,893	
Non-controlling interests	108	121	
Total equity	3,933	3,014	
Loan capital	1,243	1,309	
Total equity and loan capital	5,176	4,323	
Insurance contract liabilities	13,266	15,001	
Other liabilities	2,846	2,606	
Liabilities associated with continuing operations	16,112	17,607	
Liabilities held for sale	730	-	
Total liabilities (excluding loan capital)	16,842	17,607	
Total equity, loan capital and liabilities	22,018	21,930	

£m	2014
01 January 2014	3,014
Rights issue	747
MTM movements	253
Foreign exchange	(137)
Other	56
31 December 2014	3,933

		Includes £50m deleverage
		Includes IAS 19 pension deficit of £72m

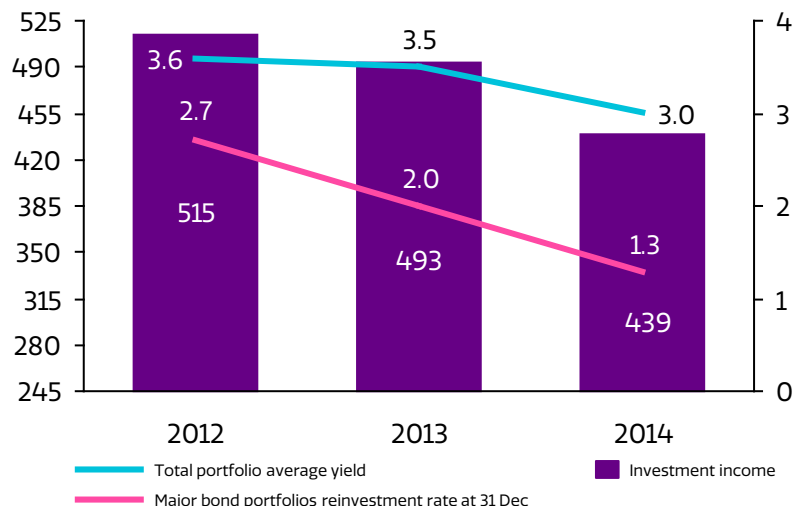
£m	31 December 2014	31 December 2013
Tangible Net Asset Value	2,900	1,665

# IMPROVING THE QUALITY & RELIABILITY OF THE GROUP'S BALANCE SHEET

1	Goodwill & intangibles	<ul style="list-style-type: none"> <li>• £55m goodwill write downs (Ireland £44m; Russia £11m)</li> <li>• £44m intangible write downs mainly software related in the UK, Ireland and Scandinavia</li> <li>• £65m taken in H1; £34m in H2</li> </ul>
2	Discount rates	<ul style="list-style-type: none"> <li>• £98m for change in rate used to discount long-tail liabilities in Sweden and Denmark. No change in the UK</li> <li>• Driven by decline in market yields</li> <li>• Bi-annual review of discount rates going forward</li> </ul>
3	Deferred tax asset	<ul style="list-style-type: none"> <li>• £92m deferred tax impairment (UK £84m; Ireland £8m)</li> <li>• Assessment made following re-set of Group's strategy in 2014 and the issues faced in Ireland</li> <li>• No capital impact or economic consequences as the tax losses remain available to us</li> </ul>
4	Other actions	<ul style="list-style-type: none"> <li>• £67m primarily relating to the revision of estimates, including DAC (£17m) and dilapidation provisions in respect of leasehold properties (£5m)</li> <li>• A review of the Group's reinsurance accounting resulted in a charge of £22m</li> <li>• Revisions to certain accounting estimates after the availability of better information resulted in a charge of £23m which predominately relates to Ireland</li> </ul>

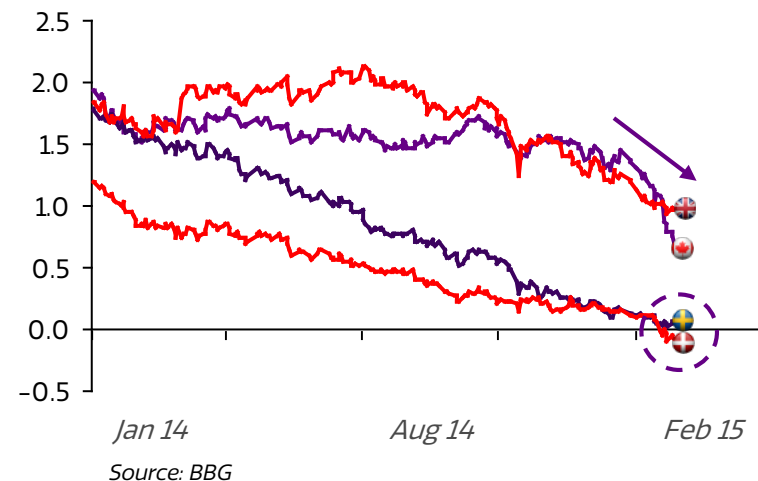
# INVESTMENT INCOME: MARKET YIELDS FALLING

Investment income (£m), average yield and year-end bond portfolio reinvestment rate (%), 2012-14



**Investment Portfolio £14.2bn at FY 2014**  
 (£13.8bn at FY 2013)

5 Year Bond yields (%), Jan 14 – Feb 15



**2015 investment income expectation of around £380m,**  
**falling to c.£350m in 2016 and 2017**  
 (based on current forward bond yields and FX rates)

RSA's investment strategy protects capital for both policyholders and shareholders, and reflects the relatively short-term nature of the underlying insurance portfolio:

- High quality, low risk fixed income dominated portfolio
- Average duration: 4.0 years
- 66% corporate bond weighting is currently optimised
- Potential to expand into higher yield assets, such as direct lending, although at modest levels

# LEVERAGE AND INTEREST EXPENSE

## Leverage<sup>1</sup>, selected P&C peers



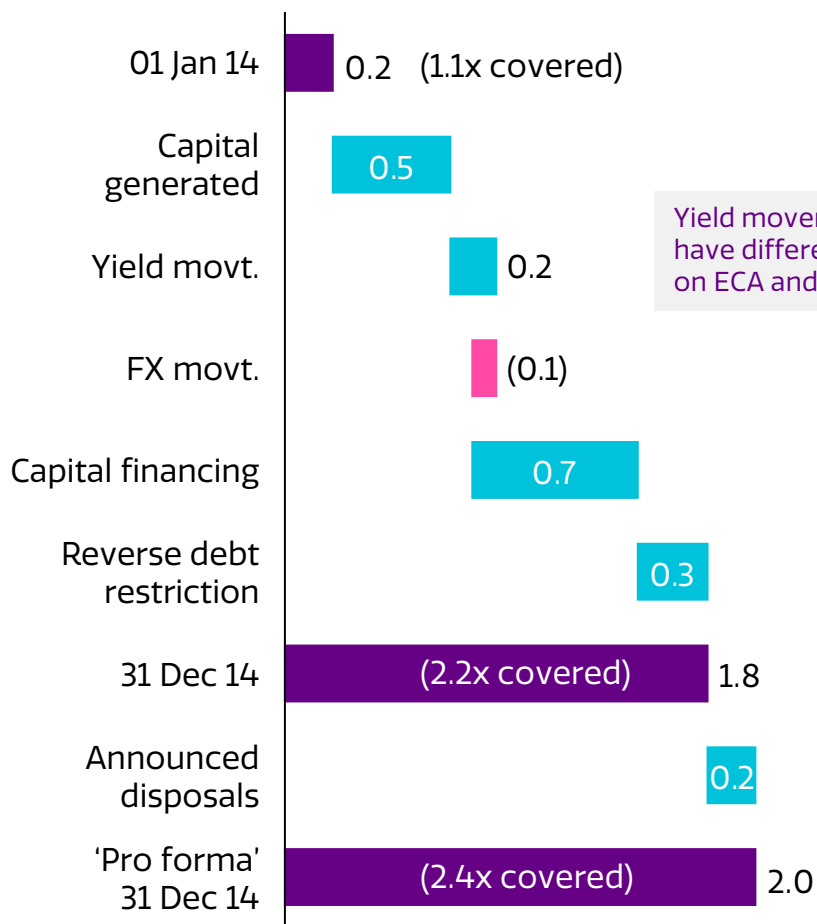
## RSA interest expense opportunity

Instrument size	Call date	Coupon	Interest cost
£375m	July 2017	6.7%	£25m
£500m	May 2019	9.4%	£47m
£400m	Oct 2025	5.1%	£20m
2015 expected interest expense			c.£105m <sup>3</sup>

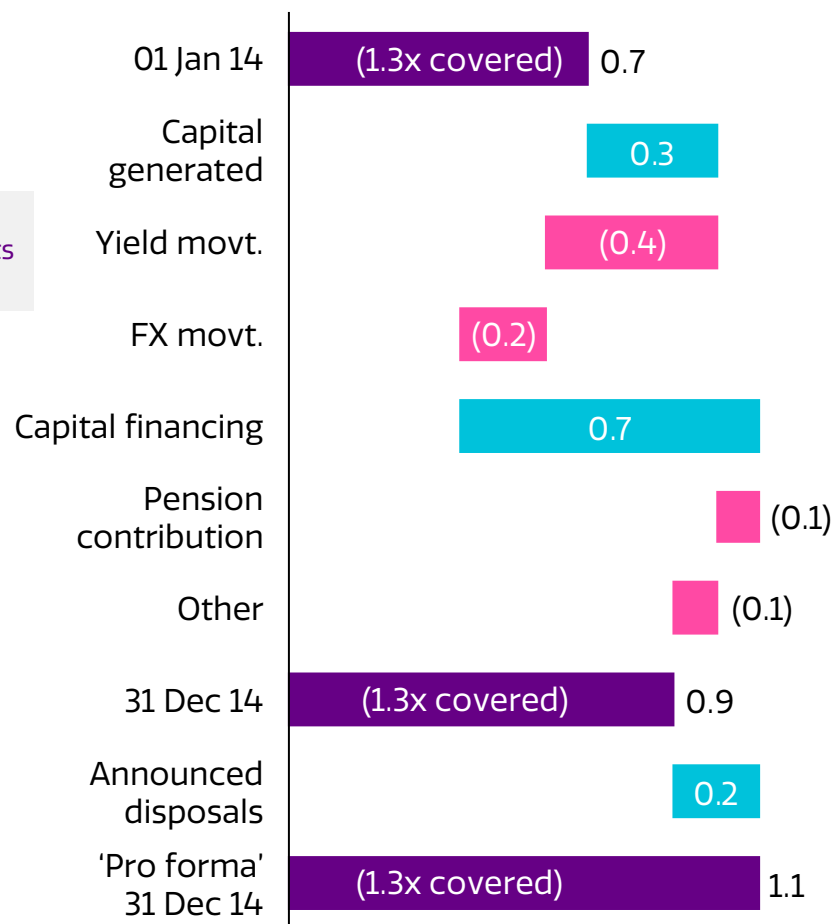
- £400m subordinated bond issue completed in early October with coupon of 5.1% – replaced an existing £450m issue that was called on 8<sup>th</sup> December

# GOOD PROGRESS ON IGD AND ECONOMIC CAPITAL MEASURES

## IGD Surplus



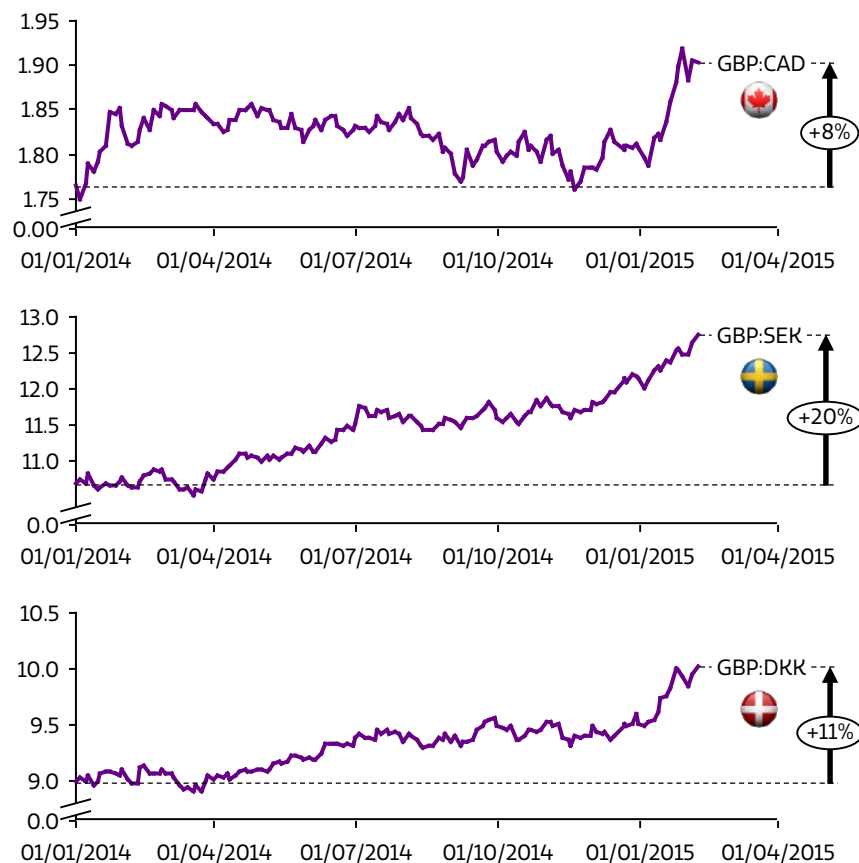
## ECA Surplus



Yield movements  
have different impacts  
on ECA and IGD

# FOREIGN EXCHANGE IMPACT

Sterling has appreciated against our core foreign territories



FX has a significant impact on RSA result

£m	FY 14 (as reported)	1 FY 14 (31 Dec 2013 spot rates)	2 FY 14 (31 Jan 2015 spot rates)	Variance 1-2 (%)
NWP	7,465	7,694	7,213	(6)
Underwriting result	90	103	81	(21)
Investment income	439	454	424	(7)
Operating result	365	385	346	(10)

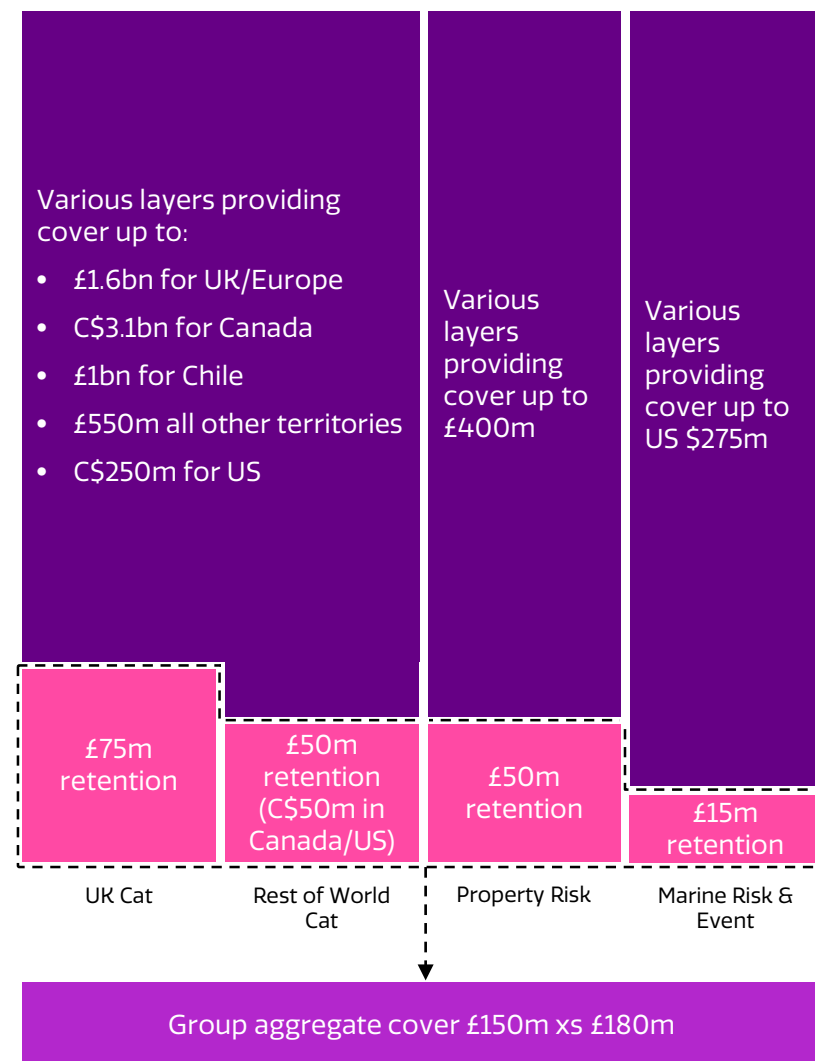
January 2015 spot rates would imply a 10% reduction in the reported sterling operating profit versus that implied by spot rates at the start of 2014

# 2015 REINSURANCE PROGRAMME

- For 2015 we have purchased a Group aggregate cover
- Retentions for our existing Cat and Risk treaties have been adjusted accordingly
  - Non-UK Cat programme up from £25m to £50m (Canada C\$30m to C\$50m)
  - Property risk treaty up from £25m to £50m

## Group aggregate cover

- Events or individual net losses > £10m are added together across our financial year (when a loss exceeds £10m it is included in full)
- Cover attaches when total of these retained losses is greater than £180m
- Limit of cover £150m in any year
- 3 year deal with maximum recovery available during that time of £300m
- £150m limit can also be used if Cat cover exceeded
- Profit commission and no claims bonus arrangements in place
- Counterparties are high credit quality reinsurers (80% AA-, 20% A or better)



# DIVIDEND

## Dividend payments recommenced

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- 1 Final dividend recommendation of 2p per share
- 2 Modest absolute level reflects 2014 profitability as well as work remaining on capital build
- 3 Reconfirm medium term ambition of 40–50% dividend payouts plus further capital distribution if excess capital arises

# 2015 OUTLOOK

## Aim to complete strategic restructuring. Focus to be on improving core performance

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- 1 Market conditions permitting, in 2015 we target an end to the shrinkage of core business NWP
- 2 Underlying loss ratios should improve further and costs continue to reduce
- 3 Weather and large loss items will remain unpredictable but reinsurance actions should reduce tail volatility
- 4 Sustainable prior year reserve releases expected below 1% of premiums, but potentially volatile
- 5 Investment income should trend downwards subject to market conditions. 2015 investment income expected to be c.£380m
- 6 Foreign exchange moves will impact Sterling reported results
- 7 Medium term underlying ROTE target of 12-15% remains

Q&A

# APPENDIX

# STRATEGIC FOCUS: DISPOSALS

	Baltics & Poland	Noraxis	China	Singapore & Hong Kong	Italy	Thailand	India
Summary	Sale of operations in Lithuania, Latvia, Estonia and Poland	Sale of majority shareholding of Canadian brokerage network	Sale of operations in China	Sale of operations in Singapore and Hong Kong	Sale of operations in Italy	Sale of minority holding	Sale of minority holding
Announced date	17 <sup>th</sup> April 2014	19 <sup>th</sup> May 2014	3 <sup>rd</sup> July 2014	21 <sup>st</sup> Aug 2014	17 <sup>th</sup> Oct 2014	19 <sup>th</sup> Dec 2014	18 <sup>th</sup> Feb 2015
Purchaser	PZU	Arthur J Gallagher	Swiss Re	Allied World Assurance	ITAS Mutua	Private equity	Sundaram Finance
Proceeds	£289m	c.£220m	c.£71m	c.£130m	c.£19m	£37m	c.£46m
Gain on sale	£153m	£164m	c.£26m	c.£110m	c.£28m	£21m	c.£16m
Tangible equity benefit	c.£190m	c.£260m	c.£26m	c.£95m	c.£8m	£19m	c.£19m
Status	Latvia completed 30 <sup>th</sup> June. Poland completed 15 <sup>th</sup> Sep. Lithuania and Estonia completed 31 Oct.	Completed 2 <sup>nd</sup> July	Completion expected H1 2015	Completion expected H1 2015	Completion expected H2 2015	Completed 19 <sup>th</sup> December	Anticipated completion within 6 months

# GROUP UNDERLYING PREMIUMS DOWN 2% AT CONSTANT EXCHANGE

(%)	Rate	Volume	Change at constant FX	FX	Change at reported FX
Scandinavia	3%	-	3%	(9)%	(6)%
Canada	2%	(5)%	(3)%	(11)%	(14)%
UK (excl. Motability)	2%	(8)%	(6)%	(1)%	(7)%
Ireland	5%	(10)%	(5)%	(5)%	(10)%
Latin America	3%	1%	4%	(22)%	(18)%
Group underlying	2%	(4)%	(2)%	(6)%	(8)%
Adjust for Motability			(4)%		(4)%
Adjust for Group ADC			(1)%		(1)%
Completed disposals			(1)%		(1)%
Group total			(8)%	(6)%	(14)%

Underwriting action mainly in Commercial

Driven by portfolio actions in Personal Motor and across Commercial

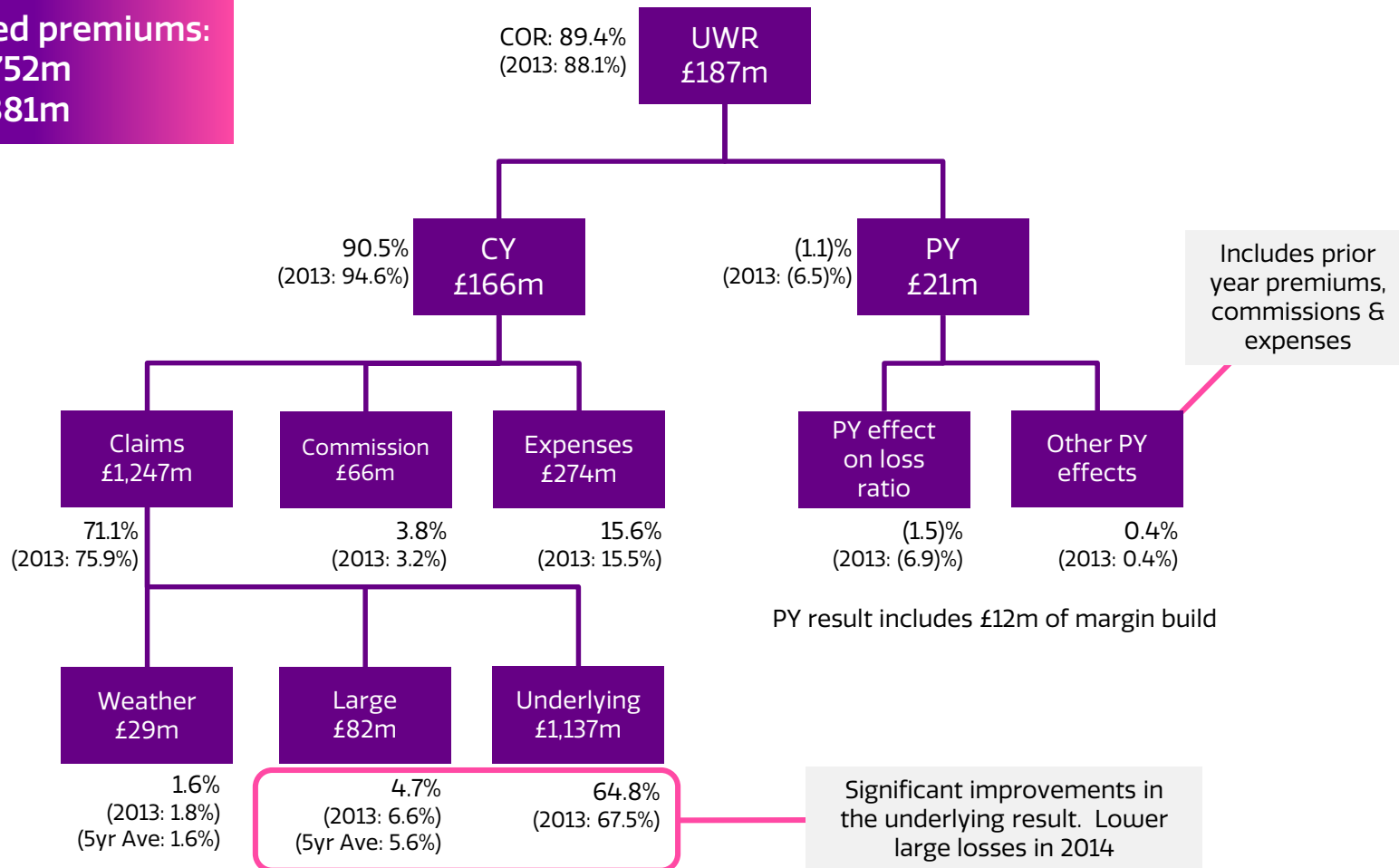
Remediation work in Ireland includes strong rate increases in Motor and Liability

# CORE BUSINESSES SEGMENTAL SPLIT

£m (unless stated)	Scandinavia	Canada (ex Noraxis)	UK (ex Legacy)	Ireland	Latin America
Net written premiums	1,759	1,510	2,569	295	690
Net earned premiums	1,752	1,536	2,850	328	700
Underwriting result	187	30	15	(107)	(2)
Investment result	64	77	132	10	27
Insurance result	251	107	147	(97)	25
Loss ratio	69.6	68.7	65.3	103.5	57.2
<i>Weather ratio</i>	<i>1.6</i>	<i>5.0</i>	<i>3.8</i>	<i>5.8</i>	<i>0.3</i>
<i>Large loss ratio</i>	<i>4.7</i>	<i>3.6</i>	<i>12.9</i>	<i>3.4</i>	<i>3.6</i>
<i>Current year underlying loss ratio</i>	<i>64.8</i>	<i>62.8</i>	<i>49.0</i>	<i>80.3</i>	<i>52.2</i>
<i>Prior year effect on loss ratio</i>	<i>(1.5)</i>	<i>(2.7)</i>	<i>(0.4)</i>	<i>14.0</i>	<i>1.1</i>
Commission ratio	3.9	14.0	20.6	12.6	25.5
Expense ratio	15.9	15.3	13.6	16.2	17.6
Combined ratio	89.4	98.0	99.5	132.3	100.3

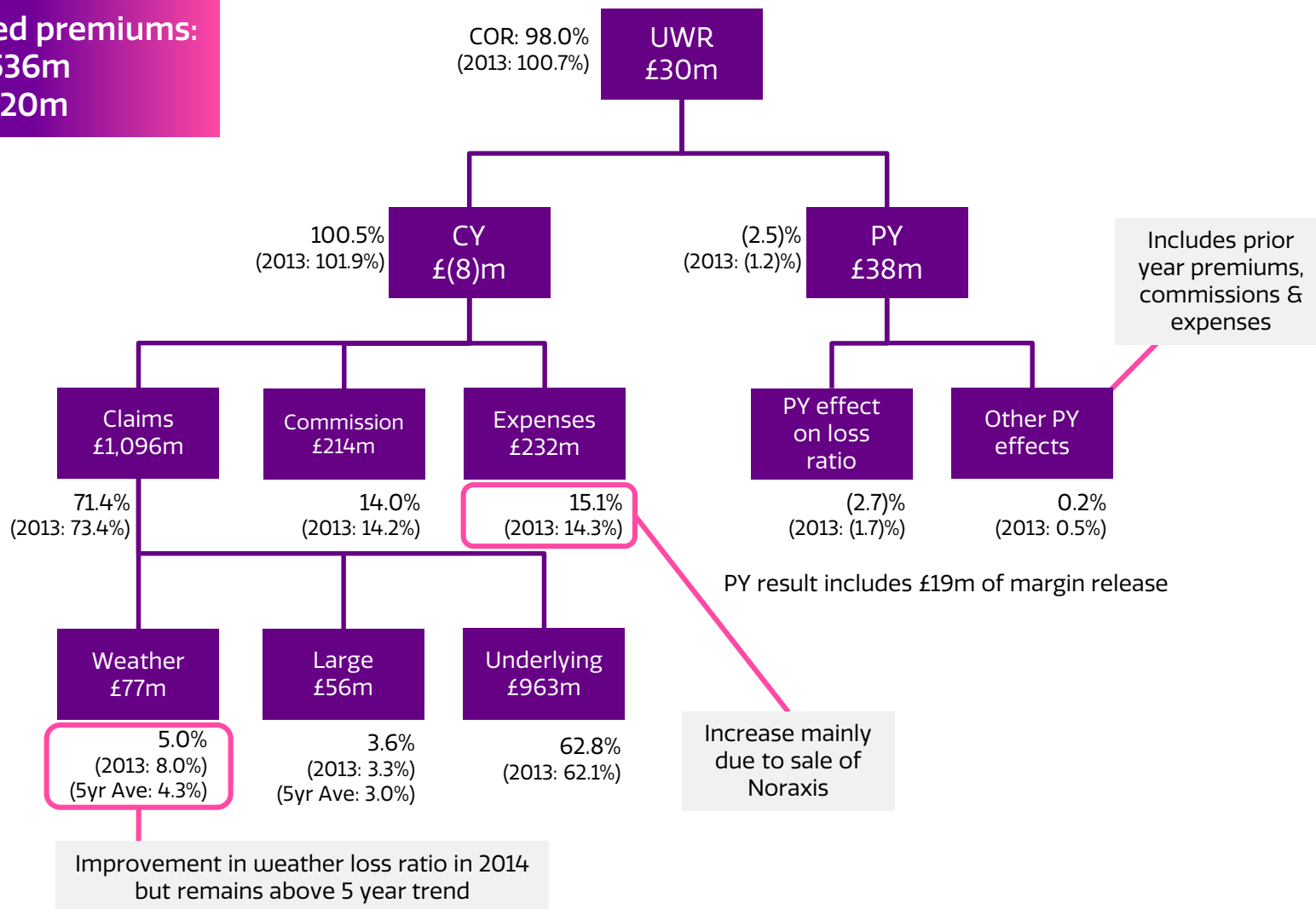
# SCANDINAVIA: 2014 UNDERWRITING RESULT

**Net earned premiums:**  
**2014: £1,752m**  
**2013: £1,881m**



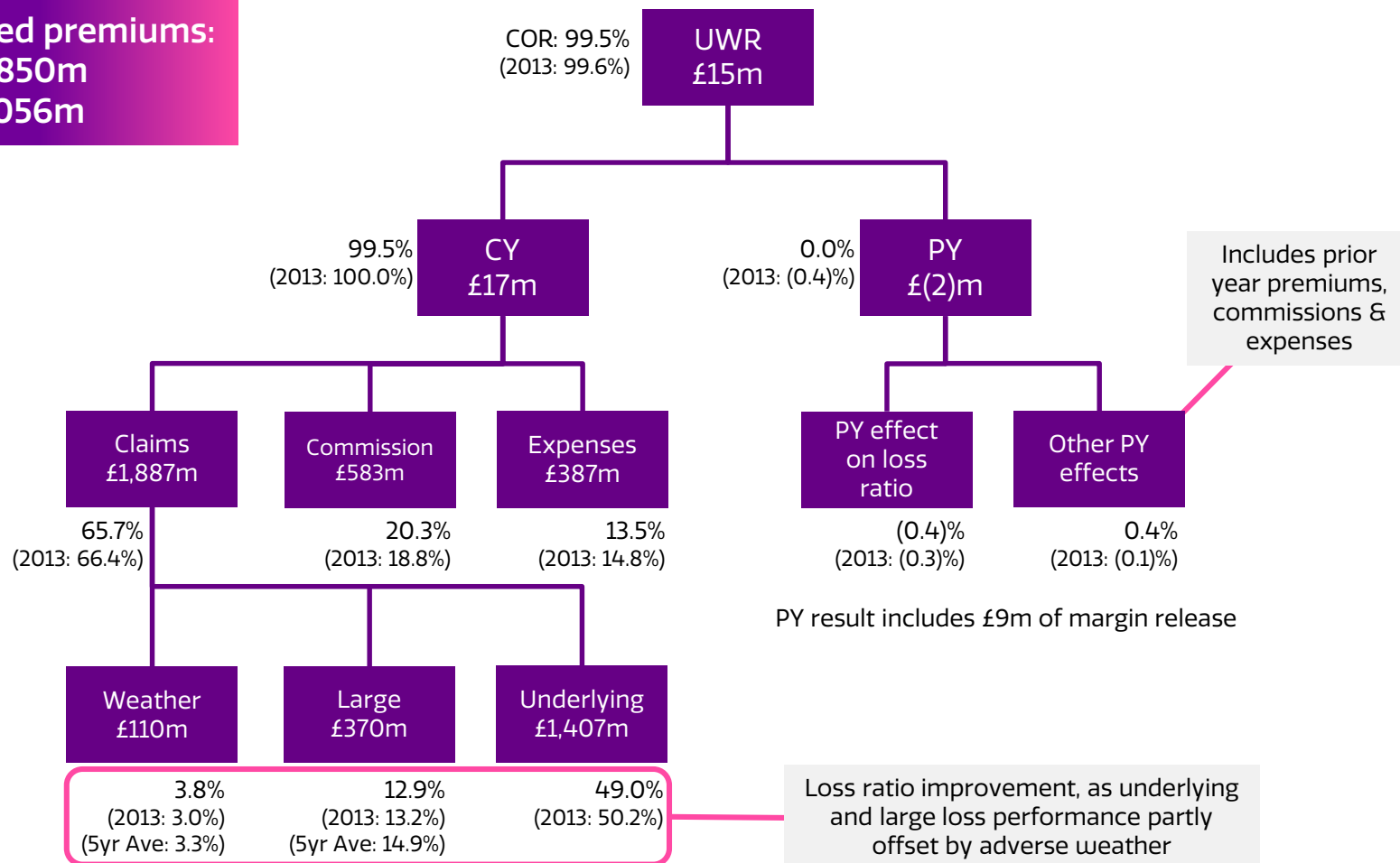
## CANADA: 2014 UNDERWRITING RESULT

**Net earned premiums:**  
**2014: £1,536m**  
**2013: £1,720m**



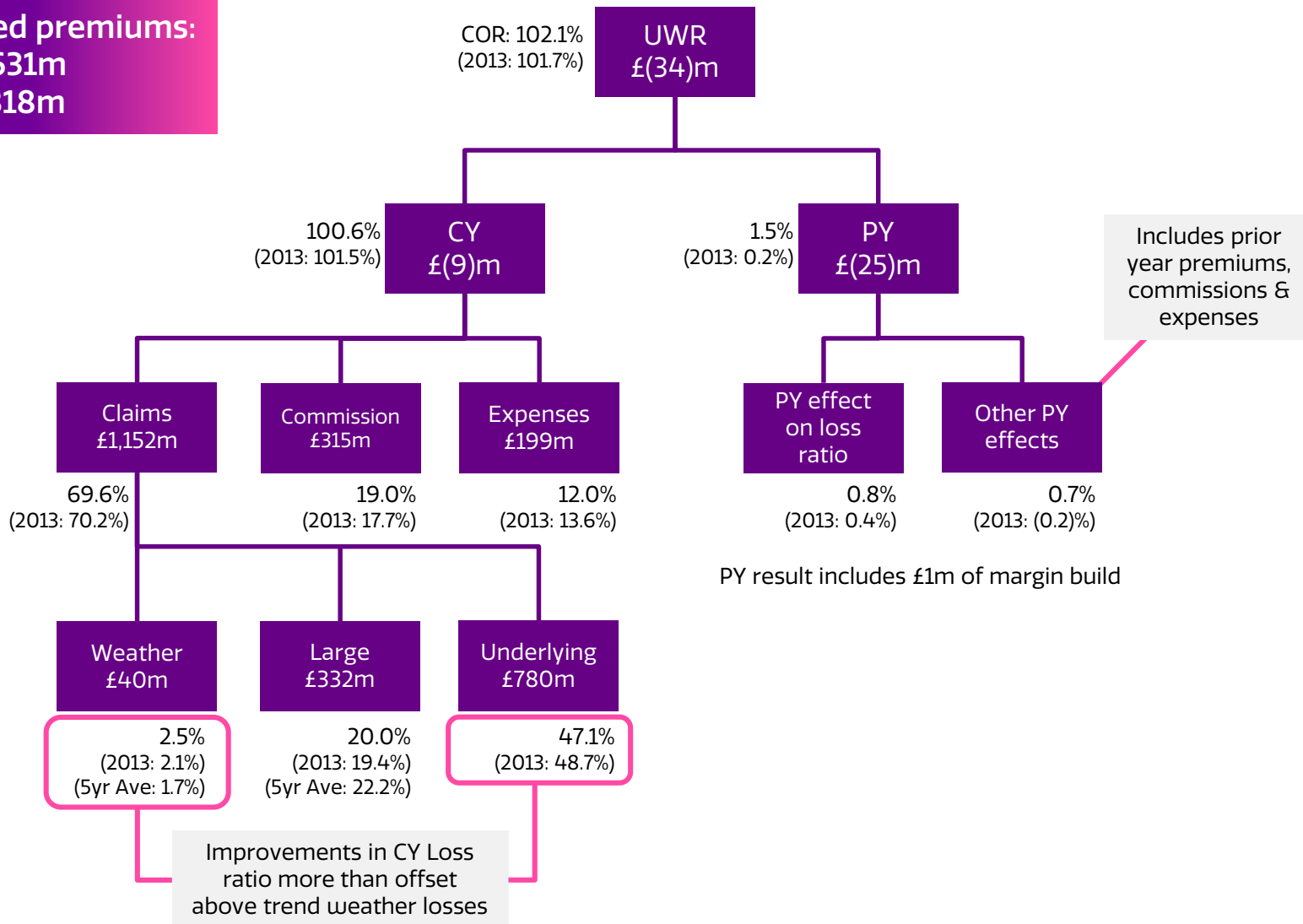
# UK: 2014 UNDERWRITING RESULT

**Net earned premiums:**  
**2014: £2,850m**  
**2013: £3,056m**



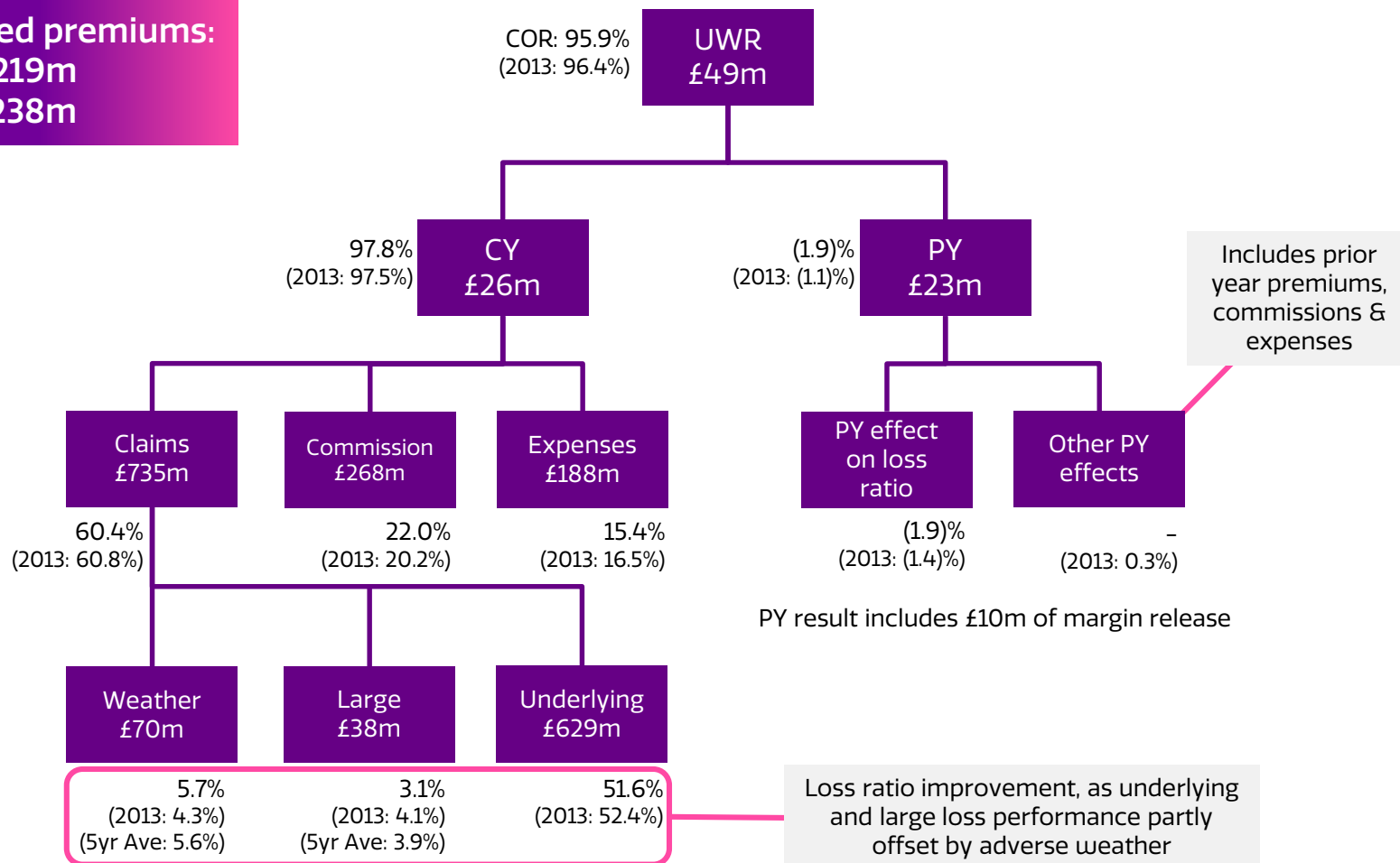
# UK COMMERCIAL: 2014 UNDERWRITING RESULT

**Net earned premiums:**  
**2014: £1,631m**  
**2013: £1,818m**



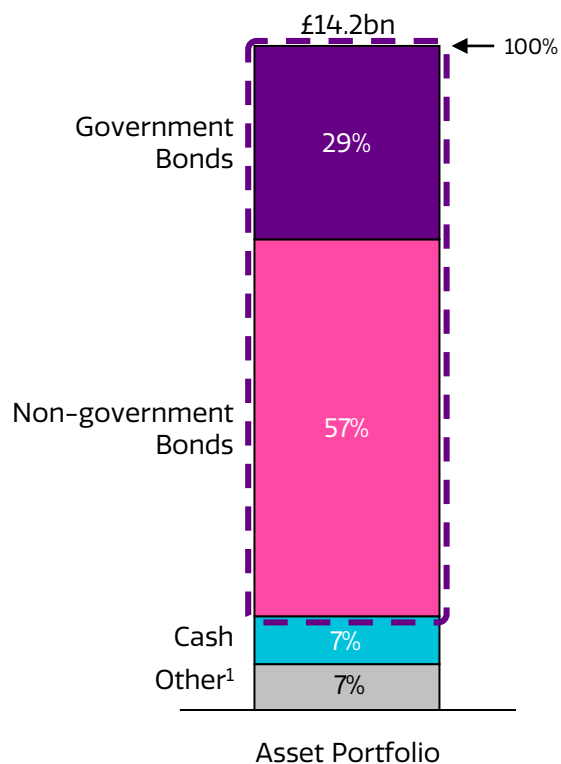
# UK PERSONAL: 2014 UNDERWRITING RESULT

**Net earned premiums:**  
**2014: £1,219m**  
**2013: £1,238m**



# INVESTMENT PORTFOLIO COMPOSITION & CREDIT QUALITY

Investment portfolio, 2014 (£m)



Bond portfolio credit quality (at 2014)

