NEWS

RSA

RSA Insurance Group plc
Q1 2015 Interim Management Statement

7 May 2015

2015 has started positively at RSA. Core Group premium income (NWP) is up 1% vs Q1 2014[1]. Profit is again boosted by disposal gains, with underlying trends also improved on 2014 and in line with our expectations.

Restructuring action continues to move our Company forward, aimed at securing strategic focus, capital strength and sustainably higher performance levels.

Stephen Hester, RSA Group Chief Executive, commented:

"RSA made encouraging progress in Q1. Premium income returned to modest growth. Costs are falling as planned. Disposals were completed in Asia and others were contracted in India and for UK Engineering Inspection.

"Operating profit and underwriting performance were up on Q1 2014 though variable across different parts of the Group as can be expected in any single quarter. In particular our UK business results are gaining strength.

"Our near-term ambition is to have substantially completed the strategic focus and capital elements of our restructuring plan as we go into next year; to deliver improved underlying results in 2015 and to be making good progress towards our medium term performance targets.

"Lower interest rates and currency moves in our key territories continue to have adverse impacts, whilst insurance markets remain competitive. The path to high quality outperformance will not be smooth or easy, but our focus on that goal is clear."

Strategic update

- Continued good progress on our Action Plan to secure strategic focus, capital strength, and sustainably improved business performance.
- Completed disposals of Singapore and Hong Kong (gain on sale £109m); announced disposals of minority interest in India and our UK Engineering Inspection business.
- On plan for Solvency II internal model submission in Q2. Capital ratios at Q1 are slightly up versus year end, in line with our expectations.
- Costs and headcount are falling as expected. Remediation in Ireland continues.

Trading update

- Core Group net written premiums of £1.5bn, up 1%[1] (up 5% ex new Group reinsurance programme). Underlying trends in line with expectations across all regions.
- Underwriting result seasonally subdued but largely as planned, with some variability by region.
- Investment performance is on track to deliver around £380m of income in 2015.
- Q1 net attributable profits a little ahead of our plans and included anticipated disposal gains.
- Tangible equity £3.0bn (31 December 2014: £2.9bn).
- Capital metrics at 31 March 2014: IGD surplus c.£1.9bn with coverage of 2.3 times; Economic capital surplus c.£0.9bn with coverage of 1.3 times.

[1] at constant exchange rates

Q1 2015 trading update

Market conditions

Insurance markets continue to be competitive but navigable. Pricing has held up well in Scandinavia where conditions remain relatively stable. In Canada, conditions are mixed with market hardening in personal household offset by weaker conditions elsewhere. In the UK, pricing conditions remain soft across all major lines.

Foreign exchange movements continue to impact reported results. Sterling is stronger against all of our major currency exposures than a year ago, with further strengthening versus Scandinavia and Canada in particular during the first quarter (8% strengthening against the Danish Krone, 5% against the Swedish Krona, and 4% against the Canadian Dollar).

Interest rates have again trended lower across our major markets further impacting the reinvestment rate on our bond portfolio (5 year government bond yields in Sweden and Denmark were down c.10 and c.30 basis points respectively in the first quarter of the year, and Canadian yields were down c.50 basis points). Most of this movement occurred in January and was therefore factored into the investment income guidance we provided at the end of February.

Profitability

At a headline level net attributable profits are tracking a little ahead of our plan. The first quarter is seasonally weak for underwriting performance. Q1 2015 trends are consistent with the improvements we are targeting versus 2014, however results show some variability by region as can be expected in any single quarter. Our UK business results are gaining strength. Remediation in Ireland is ongoing.

Investment performance remains on track to deliver around £380m of income in 2015.

We have continued to reduce expenses and are making good progress against the increased targets we set out earlier this year.

First quarter profit included £109m disposal gains from the sales of Hong Kong and Singapore.

Underlying current year loss ratio: The underlying loss ratio for Q1 2015 was better than Q1 2014 driven by the UK, Canada and Latin America, with Scandinavia marginally weaker. The underlying loss ratio was slightly behind our plan overall, with the UK and Latin America better than plan, and Scandinavia and Canada behind plan.

***Weather losses*:** As at the end of Q1 we have booked total weather costs for the year-to-date of £48m which represents 2.6% of net earned premiums (Q1 2014: 5.7%). Weather was relatively benign in the UK, Ireland and Scandinavia. In Canada, adverse winter weather has resulted in elevated weather costs (albeit lower than Q1 2014), whilst in Latin America, severe flooding in the north of Chile in March resulted in an estimated net cost of c.£14m.

***Large losses*:** Large losses for the year-to-date of £138m represent 7.5% of net earned premiums (Q1 2014: 5.4%), slightly worse than expected.

***Prior year*:** Prior year reserve emergence for the first quarter was in line with our expectations overall, although with variability by region. We continue to expect prior year profits to be generally below 1% of premiums but potentially variable given our commitment to transparent reserve margins.

We target continuing improvements to underwriting profitability in the remainder of the year, though very much subject to weather/large loss volatility and prior year reserve movements.

Net written premiums

	3 Months 2015 £m	3 Months 2014[1] £m	Change as reported %	Change at constant fx %
Scandinavia				
Household	88	94	(6)	6
Personal Motor	103	118	(13)	1
Personal Accident & Other	81	91	(11)	4
Total Personal	**272**	**303**	**(10)**	**3**
Property	125	132	(5)	9
Liability	78	75	4	16
Commercial Motor	70	80	(13)	-
Marine & Other	66	71	(7)	6
Total Commercial	**339**	**358**	**(5)**	**8**
Total Scandinavia	**611**	**661**	**(8)**	**6**
Canada				
Household	62	58	7	11
Personal Motor	112	121	(7)	(5)
Total Personal	**174**	**179**	**(3)**	**-**
Property	8	15	(47)	(47)
Liability	10	12	(17)	(17)
Commercial Motor	19	19	-	6
Marine & Other	3	5	(40)	(40)
Total Commercial	**40**	**51**	**(22)**	**(20)**
Total Canada	**214**	**230**	**(7)**	**(4)**
UK				
Household	119	128	(7)	(7)
Personal Motor	57	50	14	14
Pet	71	66	8	8
Total Personal	**247**	**244**	**1**	**1**
Property	129	121	7	10
Liability	60	67	(10)	(8)
Commercial Motor	46	36	28	28
Marine	88	72	22	22
Total Commercial	**323**	**296**	**9**	**11**
Total Core UK	**570**	**540**	**6**	**7**
Ireland				
Personal	34	42	(19)	(11)
Commercial	18	18	-	6
Total Ireland	**52**	**60**	**(13)**	**(5)**
Latin America				
Chile	23	11	109	130
Mexico	18	17	6	13
Brazil	22	26	(15)	(4)
Argentina	53	52	2	6
Colombia	4	13	(69)	(64)
Uruguay	11	9	22	22
Total Latin America	**131**	**128**	**2**	**10**
Total Core Group (before Group Re)	**1,578**	**1,619**	**(3)**	**5**
Group Re[2]	(103)	(46)	(124)	(124)
Total Core Group	**1,475**	**1,573**	**(6)**	**1**
Discontinued & non-core	116	155	(25)	(22)
Total Group	**1,591**	**1,728**	**(8)**	**(1)**

[1] Q1 2014 net premiums restated for changes to reinsurance accounting – please refer to page 11 for further details
[2] Group Re premiums include £139m in Q1 2015 for the purchase of a new 3 year Group aggregate reinsurance cover, and £67m in Q1 2014 for the purchase of the Group Adverse Development Cover.

Core Group net written premiums in the first quarter were up 1% at constant exchange rates, and up 5% excluding the impact of Group Re.

	Scandi-navia	Canada	UK	Ireland	Latin America	Total
Net Written Premiums (£m)	**611**	**214**	**570**	**52**	**131**	
% changes in NWP						
Volume change including portfolio actions	3	(6)	5	(10)	6	2
Rate increases	3	2	2	5	4	3
Core Group Q1 2015 CFX movt. (ex Group Re)	**6**	**(4)**	**7**	**(5)**	**10**	**5**
Impact of Group Re[1]						(4)
Core Group Q1 2015 CFX movt.						**1**
Impact of non-core businesses/disposals						(2)
Total Group Q1 2015 CFX movt.						**(1)**

[1] Group Re premiums include £139m in Q1 2015 for the purchase of a new 3 year Group aggregate reinsurance cover, and £67m in Q1 2014 for the purchase of the Group Adverse Development Cover.

Scandinavian net written premiums were up 6% at constant exchange to £611m. Excluding the impact of two large commercial deals, growth was 2%. Personal grew 3% with strong growth of 5% in Sweden Personal driven by Household and Personal Accident due to a combination of rate increases and good retention levels. Denmark Personal premiums were up 3% with growth across all lines, whilst Norway Personal premiums were down 3% primarily as a result of the termination of a single large affinity arrangement in late 2014.

Commercial premiums were up 8% with growth of 12% in Denmark Commercial driven by strong progress in Renewable Energy and Workers Compensation, with two large deals in particular secured during the first quarter. Sweden Commercial grew 4% with good new business levels in the Care portfolio, whilst Norway Commercial premiums were flat.

In **Canada**, net written premiums were down 4% at constant exchange to £214m. Personal premiums were flat, with a 5% reduction in Motor offset by growth of 11% in Household. Household premiums included continued rate action whilst lower Motor premiums were primarily driven by the government mandated rate reductions in Ontario. In Commercial, premiums were down 20% during the first quarter, largely expected as our 2014 portfolio actions roll through the book. Despite this we anticipate that Canada will show overall growth for the full year 2015.

UK & Ireland. In the UK, headline growth was flattered by the benefit of lower reinsurance costs and the changes to our reinsurance programme set out in February, together with a number of one-off items. Excluding these items, net written premiums were up 3%.

In UK Personal, net written premiums were up 1%. Household premiums fell 7% reflecting competitive conditions and lower retention. In Motor, growth of 14% was mainly driven by a strong performance in our telematics offering. We have continued to maintain pricing discipline with year-to-date average rate increases on renewed motor business of 1%. Pet growth of 8% was driven by continued rate increases to cover rising claims inflation.

In UK Commercial, we have continued to maintain underwriting discipline despite significant price competition across the market. Excluding reinsurance changes and one-off items, net written premiums were up 3%. Property growth mainly reflected lower reinsurance premiums, partly offset by the impact of targeted exits. Motor growth was driven by good retention and targeted new business in our Fleet portfolio, and Motability changes as the portfolio balance shifts to the new contract. Marine premiums benefited from good retention and lower reinsurance costs as well as the absence of the pipeline premium adjustments made in Q1 2014. Liability contraction reflected the ongoing impact of portfolio remediation offset by strong growth in our Regions Packages portfolio.

In Ireland, net written premiums of £52m were down 5% at constant exchange, and broadly in line with our expectations, reflecting the ongoing impact of our remediation work.

Latin America net written premiums of £131m were up 10% at constant exchange. The economic environment continues to be relatively muted with lower growth levels driven by falling commodity prices and weakening currencies. In Chile and Argentina, new large long-term distribution agreements drove better than expected growth. Mexico also benefited from new affinity deals. Lower premiums in Colombia and Brazil reflect the restructuring actions we took there in 2014.

Group Re premiums in Q1 2015 included £139m for the purchase of a group aggregate cover (for which full details were disclosed in February). The premium will be earned over the 3 year life of the contract. Q1 2014 Group Re premiums included £67m for the Group Adverse Development Cover.

Investment portfolio

	Value 31 Dec 2014 £m	Foreign exchange £m	Mark to market £m	Other movt. £m	Transfer to assets held for sale £m	**Value 31 Mar 2015 £m**
Government bonds	4,163	(138)	51	80	-	4,156
Non-Government bonds	8,085	(243)	68	(7)	-	7,903
Cash	1,011	(20)	-	104	-	1,095
Equities	160	(10)	21	(12)	-	159
Property	346	-	10	-	-	356
Prefs & CIVs	335	(7)	(13)	31	-	346
Other	97	(4)	(1)	4	-	96
Total	**14,197**	**(422)**	**136**	**200**	**-**	**14,111**
Split by currency:						
Sterling	4,466					4,559
Danish Krone	1,229					1,105
Swedish Krona	2,344					2,272
Canadian Dollar	3,128					2,965
Euro	1,308					1,271
Other	1,722					1,939
Total	**14,197**					**14,111**

The investment portfolio fell by £0.1bn in the first quarter to £14.1bn with adverse foreign exchange movements partly offset by net cash inflows and positive mark-to-market movements.

At 31 March 2015, high quality widely diversified fixed income securities represented 85% of the portfolio (31 December 2014: 86%). Equities represented 1% (31 December 2014: 1%) and cash 8% of the total portfolio (31 December 2014: 7%).

The quality of the bond portfolio remains very high with 98% investment grade and 65% rated AA or above. We remain well diversified by sector and geography.

The average book yield on the total portfolio was 3.0% (2014: 3.1%), with average yield on the bond portfolios of 2.7% (2014: 3.0%). Reinvestment rates in the Group's bond portfolios at 31 March 2015 were approximately 130bps lower than the existing average book yield.

Average bond duration is 4.2 years (31 December 2014: 4.0 years) largely reflecting investment of strong net cash flows into the UK portfolio. We do not currently anticipate any further material increases in average duration from the current level.

Balance sheet unrealised gains of £782m (pre-tax) increased by £110m during the first quarter (31 December 2014: £672m) driven by lower bond yields, particularly in Scandinavia and Canada.

Investment performance remains on track to deliver around £380m of income in 2015.

Shareholders' funds

		Shareholders' funds	TNAV
31 Mar 2015	**£m**	**3,868**	**2,981**
	pence/share	**369**	**294**
31 Dec 2014	£m	3,825	2,900
	pence/share	365	286

Tangible net asset value increased by £81m (3%) in the quarter. The movement was mainly driven by profits (including disposal gains) and fair value gains, partly offset by adverse foreign exchange and pension fund movements.

Tangible net asset value per share increased by 8 pence to 294p.

Capital position

		Requirement £bn	Surplus £bn	Coverage (times)
Insurance Groups Directive[1]	**31 Mar 2015**	**1.4**	**1.9**	**2.3**
	31 Dec 2014	1.4	1.8	2.2
Economic Capital[1] (S&P 'A' curve)	**31 Mar 2015**	**3.5**	**0.9**	**1.3**
	31 Dec 2014	3.4	0.9	1.3

[1] *The IGD and economic capital positions at 31 March 2015 are estimated.*

At 31 March 2015, the IGD surplus was £1.9bn covering the capital requirement 2.3 times. The surplus increased by £0.1bn in the quarter driven by capital generated, including the sales of Hong Kong and Singapore.

The estimated economic capital surplus at 31 March 2015 was £0.9bn giving coverage over the capital requirement of 1.3 times. Capital generated in the quarter fully absorbed adverse foreign exchange and yield movements together with pension contributions which are paid during the first quarter.

Across the full range of regulatory and rating agency measures we manage to, Q1 2015 ratios are improved modestly versus year end reporting.

Supplementary information

Net earned premiums

	3 Months 2015 £m	3 Months 2014[1] £m	Change as reported %	Change at constant fx %
Scandinavia				
Household	70	77	(9)	4
Personal Motor	80	92	(13)	1
Personal Accident & Other	68	76	(11)	5
Total Personal	**218**	**245**	**(11)**	**3**
Property	69	85	(19)	(7)
Liability	33	33	-	10
Commercial Motor	45	52	(13)	-
Marine & Other	30	33	(9)	3
Total Commercial	**177**	**203**	**(13)**	**(1)**
Total Scandinavia	**395**	**448**	**(12)**	**2**
Canada				
Household	111	110	1	4
Personal Motor	145	157	(8)	(5)
Total Personal	**256**	**267**	**(4)**	**(1)**
Property	48	54	(11)	(9)
Liability	27	31	(13)	(10)
Commercial Motor	21	23	(9)	(5)
Marine & Other	12	13	(8)	(8)
Total Commercial	**108**	**121**	**(11)**	**(8)**
Total Canada	**364**	**388**	**(6)**	**(3)**
UK				
Household	159	163	(2)	(2)
Personal Motor	68	87	(22)	(22)
Pet	65	61	7	7
Total Personal	**292**	**311**	**(6)**	**(6)**
Property	150	148	1	3
Liability	71	75	(5)	(5)
Commercial Motor	102	130	(22)	(22)
Marine	75	55	36	36
Total Commercial	**398**	**408**	**(2)**	**(2)**
Total Core UK	**690**	**719**	**(4)**	**(4)**
Ireland				
Personal	43	56	(23)	(16)
Commercial	25	29	(14)	(4)
Total Ireland	**68**	**85**	**(20)**	**(12)**
Latin America				
Chile	46	43	7	12
Mexico	22	23	(4)	-
Brazil	27	31	(13)	(4)
Argentina	58	49	18	23
Colombia	11	21	(48)	(39)
Uruguay	12	11	9	9
Total Latin America	**176**	**178**	**(1)**	**5**
Total Core Group (before Group Re)	**1,693**	**1,818**	**(7)**	**(2)**
Group Re	3	6	(50)	(50)
Total Core Group	**1,696**	**1,824**	**(7)**	**(2)**
Discontinued & non-core	126	186	(32)	(30)
Total Group	**1,822**	**2,010**	**(9)**	**(5)**

[1] Q1 2014 net premiums restated for changes to reinsurance accounting – please refer to page 11 for further details

Rate changes

YTD Rate Increases[1] (%)	At Mar 2015 %	At Dec 2014 %	At September 2014 %	At June 2014 %
Scandinavia				
Personal Household	**3**	4	4	4
Personal Motor	**3**	3	3	2
Commercial Property	**2**	2	4	5
Commercial Liability	**4**	4	4	4
Commercial Motor	**3**	4	4	4
Canada				
Personal Household	**9**	10	10	9
Personal Motor	**(4)**	(2)	(1)	(1)
Commercial Property	**4**	5	4	4
Commercial Liability	**3**	3	3	3
Commercial Motor	**2**	1	2	1
UK				
Personal Household	**1**	(1)	-	-
Personal Motor	**1**	2	3	3
Commercial Property	**1**	2	3	3
Commercial Liability	**1**	4	5	5
Commercial Motor	**2**	2	3	3

[1] Rating changes reflect rate movements achieved for risks renewing in the year-to-date versus comparable risks renewing in the same period the previous year.

Foreign exchange rates

Foreign exchange rates used in this statement are:

	Average rate		Closing rate	
	3 Months 2015	3 Months 2014	**31 Mar 2015**	31 Dec 2014
Canadian Dollar	**1.88**	1.83	**1.88**	1.81
Danish Krone	**10.03**	9.02	**10.33**	9.60
Swedish Krona	**12.63**	10.71	**12.85**	12.22
Euro	**1.35**	1.21	**1.38**	1.29
Argentinean Peso	**13.14**	12.62	**13.09**	13.27
Chilean Peso	**944.83**	912.51	**925.47**	946.85

Bond yields

Five year government bond yields (source: Bloomberg):

%	31 Dec 2013	31 Dec 2014	31 Mar 2015
UK	1.9	1.2	1.2
Denmark	1.2	0.1	-0.2
Sweden	1.8	0.1	0.0
Canada	1.9	1.3	0.8

Reinsurance accounting restatement

We have changed our accounting for excess of loss reinsurance policies purchased by the Group. Reinsurance written premiums are now recognised in full on inception. Previously, reinsurance written premiums were recognised when earned.

The treatment has been changed from 1 January 2015 and has no impact on the insurance result, combined ratio or net assets. Q1 2014 has been restated to ensure comparatives are on a consistent basis. Similar restatement will be required at Q2 and Q3. The restatements for Q1, Q2 and Q3 2014 are to decrease net written premiums by £256m, £161m and £85m respectively.

Hong Kong & Singapore disposals

On 1 April at 00:01 (Singapore time) the sale of the Hong Kong and Singapore insurance businesses was completed. The timing was equivalent to 31 March for the UK and therefore the impact of the transaction was reflected in the Q1 results and net assets.

The final gain on disposal of these businesses will be based on the completion accounts as at 31 March based on local GAAP. These accounts are due for completion 60 working days after 31 March. However, based on 31 March Group IFRS reporting the gain has been estimated at £109m.

Changes to Interim Management Statement requirements

In November 2013 the EU published the Transparency Directive Amending Directive. One of the provisions was the removal of the requirement for companies admitted to trading on a regulated market to publish Interim Management Statements (IMS). Member states had two years in which to implement the directive. Accordingly, in November 2014 the FCA removed the requirement within the Disclosure and Transparency Rules to publish an IMS.

RSA will continue to publish Interim Management Statements on a voluntary basis until further notice.

Enquiries:

Investors & analysts
Rupert Taylor Rea
Head of Investor Relations
Tel: +44 (0) 20 7111 7140
Email: rupert.taylorrea@gcc.rsagroup.com

Ryan Jones
Investor Relations Manager
Tel: +44 (0) 20 7111 7243
Email: ryan.jones@gcc.rsagroup.com

Press
Louise Shield
Director of External Communications
Tel: +44 (0) 20 7111 7047
Email: louise.shield@gcc.rsagroup.com

Kaidee Sibborn
Media Relations Manager
Tel: +44 (0) 20 7111 7137
Email: kaidee.sibborn@gcc.rsagroup.com

Conference call for analysts and investors

A conference call for analysts and investors will be held at 8:30am on Thursday 7 May to discuss the Q1 Interim Management Statement. Participants should call +44 (0)808 237 0036 (toll free) or +44 (0)20 3427 0662, using conference title: RSA Q1 2015 IMS. A recording of the call will be available via the company website (www.rsagroup.com).

Important disclaimer

This press release and the associated conference call may contain 'forward-looking statements' with respect to certain of the Group's plans and its cxurrent 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 are inherently predictive and speculative and 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, 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 press release 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 press release shall be construed as a profit forecast.