NEWS

RSA Insurance Group plc
Q3 2015 Interim Management Statement

5 November 2015

Nine month results at RSA show strong positive momentum, with Q3 profit trends well above 2014 and improving again on those reported for the first half.

YTD underlying premium income (NWP) is up 1% vs prior year[1]. Cost and attritional loss ratios continue to get better and the balance of volatile underwriting items has been favourable versus plan.

Our restructuring actions are paving the way to further improvement in sustainable performance levels.

Stephen Hester, RSA Group Chief Executive, commented:

"We are very pleased with progress to date in RSA's turnaround. If we can keep the improvements coming, the future is bright for RSA as a high quality, high performing leader in its markets.

"Our Plans are based on three pillars of work, each going well. The strategic refocus is nearing completion with the sale of our Latin America businesses announced in September, the last major element. Our balance sheet and capital work is also approaching satisfactory outcomes. And our complete operational overhaul of the business is showing good results and gathering still further momentum.

"Zurich's unsolicited approach to RSA was a distraction in Q3. It is pleasing that our business continued to perform well despite that. A tribute to our people and franchise.

"Insurance markets remain challenging and financial markets volatile. Within those constraints, RSA is making strong progress on the path to high quality and sustained business outperformance."

Strategic update

- Fundamental improvements continue to be made towards our goal of a high performing RSA, building further confidence in achieving our medium term targets.
- Announced £403m sale of Latin America operations, bringing total agreed disposal proceeds to £1.2bn to date.
- Completed disposal of UK Engineering Inspection business and minority holding in India. Remain on track to substantially complete RSA's strategic refocus by 2015 year end results.
- Target satisfactory outcome to Solvency II internal model application by year end and to triennial review discussions with the UK pension trustees by the time of full year results.
- Costs continue to fall as expected, other operational improvement actions showing good results.

[1] *at constant exchange rates, before the impact of Group Re.*

Trading update

Market conditions

- Insurance market trends remained unchanged, with price competition continuing to drive sharp price/volume trade-offs, though in line with our expectations overall.
- Sterling remains stronger against all of our major currency exposures than a year ago, impacting results, although with some weakening against Scandinavian currencies and the Euro during Q3.
- Interest rates trended lower across our major markets in Q3 with 5 year government bond yields in Sweden and the UK down c.30 basis points each. Yields in Denmark and Canada were stable.

Premiums (further detail available on pages 5-6)

- Core Group underlying net written premiums of £4.4bn, up 1%[1]. Trends in line with expectations overall.
- Net written premiums for Q3 year-to-date[1] were up 4% in Scandinavia, up 2% in the UK, down 4% in Canada and down 5% in Ireland.

Profitability

- Trading results for the third quarter were strong and ahead of our expectations. In the discrete third quarter, the underwriting performance in the UK, Canada and Scandinavia was ahead of the same period last year and ahead of our plan.
- The **attritional loss ratio** for Q3 2015 showed good year-on-year improvement driven by the UK, Ireland and Canada.
- As at the end of Q3 total Group (incl. non-core) **weather event costs** for the year-to-date were £92m which represents 1.7%[2] of net earned premiums (Q3 2014: 3.8%). The Core Group weather ratio was 1.5% (Q3 2014: 4.3%).
- **Large losses** for the total Group (incl. non-core) were £409m for the year-to-date representing 7.7% of net earned premiums (Q3 2014: 7.2%), slightly worse than plan. During the quarter we booked an estimated net loss of £16m from the Chile earthquake in September. The Core Group large loss ratio was 8.3% (Q3 2014: 7.8%).
- At the end of the third quarter, we saw positive **prior year** emergence overall and particularly in Canada. We remain on track to deliver full year 2015 prior year profits in line with our guidance of c.0-1% of premiums.
- Expenses have continued to fall and we are making good progress against the increased targets set out at the beginning of this year.
- We target continuing improvements to underwriting profitability in the remainder of the year, though results overall will be subject to weather/large loss volatility and prior year reserve movements.
- Investment performance is on track to deliver around £390m of income in 2015.
- YTD net attributable profits are ahead of our plans. Q3 profit also included £21m disposal gains from the sale of our Indian associate, bringing total disposal gains for the year-to-date to £153m.

Capital (further detail available on page 7)

- Tangible equity up £115m to £3.0bn (30 June 2015: £2.9bn). Tangible net asset value per share 294p.
- Economic capital surplus at 30 September 2015 of c.£1.0bn with coverage of 1.3 times.

[1] at constant exchange rates, before the impact of Group Re.

[2] 2.2% if the cost of the new Group aggregate reinsurance cover, purchased in 2015 and designed to limit weather and large loss volatility, had been treated as a weather event cost.

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Conference call for analysts and investors

A conference call for analysts and investors will be held at 9:00am on Thursday 5 November to discuss the Q3 Interim Management Statement. Participants should call +44 (0)808 237 0062 (toll free) or +44 (0)20 3426 2845, using conference title: RSA Q3 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 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 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.

Supplementary information

Net written premiums

	9 Months 2015 £m	9 Months 2014[1] £m	Change as reported %	Change at constant fx %
Scandinavia				
Personal	686	759	(10)	4
Commercial	579	636	(9)	3
Total Scandinavia	**1,265**	**1,395**	**(9)**	**4**
Canada				
Personal	723	783	(8)	(3)
Commercial	291	328	(11)	(6)
Total Canada	**1,014**	**1,111**	**(9)**	**(4)**
UK & Ireland				
UK Personal	842	874	(4)	(4)
UK Commercial	1,093	1,038	5	6
Ireland[2]	197	228	(14)	(5)
Total UK & Ireland	**2,132**	**2,140**	**-**	**1**
Total Core Group (pre Group Re)	**4,411**	**4,646**	**(5)**	**1**
Group Re[3]	(104)	(44)	(136)	(136)
Total Core Group	**4,307**	**4,602**	**(6)**	**(1)**
Discontinued & non-core[4]	786	991	(21)	(15)
Total Group	**5,093**	**5,593**	**(9)**	**(3)**

[1] *Q3 2014 net premiums restated for changes to reinsurance accounting – please refer to page 8 for further details.*

[2] *Of which, Personal £122m, down 10%, and Commercial £75m, up 4%.*

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

[4] *Discontinued & non-core includes Poland, Baltics, Italy, Hong Kong, Singapore, China, Thailand, India, Latin America, Middle East and Russia.*

Rate and volume impacts

	Scandinavia	Canada	UK & Ire	**Total**
Net Written Premiums (£m)	**1,265**	**1,014**	**2,132**	
% changes in NWP				
Volume change including portfolio actions	1	(6)	(1)[1]	(1)
Rate increases	3	2	2[2]	2
Core Group Q3 2015 CFX movt. (ex Group Re)	**4**	**(4)**	**1**	**1**
Impact of Group Re[3]				(2)
Core Group Q3 2015 CFX movt.				**(1)**
Impact of non-core businesses/disposals				(2)
Total Group Q3 2015 CFX movt.				**(3)**

[1] *Of which UK flat and Ireland -9 points.*

[2] *Of which UK +2 points and Ireland +4 points.*

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

Net written premium commentary

Scandinavian net written premiums were up 4% at constant exchange to £1,265m. The Personal book grew 4% with strong growth of 6% in Sweden, driven by Household and Personal Accident due to a combination of rate increases and good retention levels. Denmark Personal premiums were down 1% although we are seeing good traction in our affinity offering. Norway Personal premiums were flat primarily as a result of the termination of a single large affinity arrangement in late 2014.

Commercial premiums were up 3% overall with growth of 4% in Denmark Commercial driven by continued strong progress in Workers Compensation and Renewable Energy. Sweden Commercial grew 2% driven by rate increases, whilst Norway Commercial premiums were also up 2%.

In **Canada**, net written premiums were down 4% at constant exchange to £1,014m reflecting our ongoing portfolio actions to improve profitability as well as competitive market conditions. Personal premiums were down 3%, with 3% growth in Household offset by a 6% reduction in Motor. Household premiums included continued rate action whilst lower Motor premiums were primarily driven by competitive conditions in Ontario, Quebec and the Pacific region. In Commercial, premiums were down 6% during the first 9 months of trading, as a result of rating and portfolio action we have been taking, particularly on poorer performing blocks of business.

In the **UK & Ireland**, net written premiums were up 1% despite continued tough competitive conditions. We are continuing to hold our underwriting discipline and to only write business which we believe will deliver sustainable target returns.

In UK Personal, headline net written premiums were down 4% although this included the ongoing impact of business exits. Household premiums were down 8% as we continue to maintain rate discipline in a competitive market. Motor premiums were down 3% as strong performance in our telematics offering was more than offset by our continued discipline. We announced, in August, our withdrawal from all Broker Motor business in the UK and we have maintained pricing discipline with year-to-date average rate increases on renewed motor business of 4%. Pet growth of 6% was driven by continued rate increases to cover rising claims inflation.

In UK Commercial, headline net written premium growth of 6% included the impact of reduced reinsurance costs; growth was lower on an underlying basis. Property growth of 7% reflected continued strong progress in Real Estate and Renewables. In Motor, Motability is driving overall growth of 21% as the book shifts to the new contract; there was also continued good growth and retention in our target Fleet portfolio. Marine premiums were flat as we focus on Transportation and Cargo whilst writing selectively in Hull. Liability premiums were up 1% reflecting modest growth in all casualty lines except for PI, where we have seen a small contraction as we continue to implement our revised strategy. Rate at an overall portfolio level is flat compared to last year although with some variability by product.

We continue to innovate with our product and services, this quarter we launched our new Smart Mini Fleet vehicle telematics solution, a Marine Hull product for our Regional clients and an e-traded Professional Indemnity product.

In Ireland, net written premiums of £197m were down 5% at constant exchange, and broadly in line with our expectations, reflecting the ongoing impact of our remediation work.

Group Re premiums include £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.

Discontinued & non-core premiums of £786m now include Latin America (£489m) following the sale announced in September. The balance of £297m comprises Middle East (£137m), Italy (£108m), Asia (£33m), Russia (£17m), and UK Legacy (£2m).

Investment portfolio

	£m
30 June 2015	**13,415**
Foreign exchange	4
Mark-to-market	(25)
Other movements	168
Transfer to assets held for sale	(484)
30 Sept 2015	**13,078**

The investment portfolio grew by 1% in the quarter to £13.1bn (excluding the impact of the transfer of Latin American assets to held for sale), largely driven by net cash inflows. The composition and credit quality of the portfolio remains unchanged.

The average book yield on the total portfolio was 2.8% (H1 2015: 3.0%), with average yield on the bond portfolios of 2.7% (H1 2015: 2.7%). Reinvestment rates in the Group's major bond portfolios at 30 September 2015 were approximately 1.3%.

Average bond duration is 4.0 years (30 June 2015: 4.0 years).

Balance sheet unrealised gains of £481m (pre-tax) decreased by £12m during the quarter (30 June 2015: £493m).

Investment performance remains on track to deliver around £390m of income in 2015.

Capital position

		Requirement £bn	Surplus £bn	Coverage (times)
Insurance Groups Directive[1]	**30 Sept 2015**	**1.4**	**1.7**	**2.2**
	30 June 2015	1.4	1.7	2.2
Economic Capital[1] (S&P 'A' curve)	**30 Sept 2015**	**3.4**	**1.0**	**1.3**
	30 June 2015	3.3	1.0	1.3

The estimated economic capital surplus at 30 September 2015 was £1.0bn giving coverage of 1.3 times. This remains unchanged from 30 June, with capital generated in the quarter (including profit and disposal gains) offset by adverse bond yield movements. The IGD position also remains unchanged with a £1.7bn surplus and coverage of 2.2 times.

On Solvency II, our application for Internal Model approval is submitted and in progress, and we target a positive outcome by year end. Our current Internal Model[2] for Solvency II shows a higher coverage ratio than our ECA model. We intend to report our Solvency II numbers for the first time at our full year results.

[1] The IGD and economic capital positions at 30 September 2015 are estimated.
[2] Which remains subject to Regulator approval.

Shareholders' funds

		Shareholders' funds	TNAV
30 Sept 2015	**£m**	**3,822**	**2,982**
	pence/share	**364**	**294**
30 June 2015	£m	3,722	2,867
	pence/share	354	282

Tangible net asset value increased by £115m (4%) in the quarter. The movement was mainly driven by profits (including disposal gains) and positive IAS19 pension fund movements, partly offset by adverse foreign exchange movements. Tangible net asset value per share increased by 12 pence to 294p.

Foreign exchange rates

Foreign exchange rates used in this statement are:

	Average rate		Closing rate		
	9 Months 2015	9 Months 2014	**30 Sept 2015**	30 Jun 2015	31 Dec 2014
Canadian Dollar	**1.93**	1.83	**2.03**	1.96	1.81
Danish Krone	**10.25**	9.19	**10.12**	10.53	9.60
Swedish Krona	**12.88**	11.15	**12.76**	13.01	12.22
Euro	**1.37**	1.23	**1.36**	1.41	1.29

Bond yields

Five year government bond yields (source: Bloomberg):

%	30 Dec 2013	31 Dec 2014	30 Jun 2015	**30 Sep 2015**
UK	1.9	1.2	1.5	**1.2**
Denmark	1.2	0.1	0.1	**0.1**
Sweden	1.8	0.1	0.3	**0.0**
Canada	1.9	1.3	0.8	**0.8**

Reinsurance accounting restatement

As reported at Q1 2015, 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 accrued for over the course of the year.

The treatment has been changed from 1 January 2015. The majority of these policies provide cover on a calendar year basis and therefore no restatement is required for FY 2014. However, Q3 2014 has been restated to ensure comparatives are on a consistent basis. The restatement for Q3 2014 is to decrease net written premiums by £85m. The restatement has had no impact on the insurance result, combined ratio or net assets.