NEWS

RSA

IMMEDIATE **3 May 2012**

RSA Interim Management Statement

Quarter 1 2012: Continued good organic growth and strong financial position

- Net written premiums of £2.2bn up by 5% with all regions delivering good growth
- Rating action and increased volumes drive the top line forward
- IGD surplus remains strong at £1.3bn; coverage unchanged at 2.0 times
- Net asset value per share including IAS 19 of 107p compared with 104p at 31 December 2011[1]
- Continue to expect to deliver good premium growth and a combined operating ratio (COR) of better than 95% in 2012

Overview

We have made a good start to the year. Net written premiums for the three months to 31 March 2012 are £2.2bn, an increase of 5% over the first quarter of 2011 (5% at constant exchange), with premium growth driven by 4% rate and a 1% increase in volumes. Total net written premiums including associates are up by 5% (6% at constant exchange) to £2.3bn.

- Scandinavia net written premiums of £667m up 1% (3% at constant exchange)[2]
- Canada net written premiums of £303m up 4% (3% at constant exchange)[2]
- UK and Western Europe net written premiums of £937m up 3% (3% at constant exchange)[2]
- Emerging Markets net written premiums of £281m up 20% (21% at constant exchange)[2]
- Associates net written premiums of £78m up 15% (20% at constant exchange)[2]

Growth has been led by Emerging Markets, which has again been driven by an excellent performance in Latin America, and good performances in Personal lines in Canada and Scandinavia and Commercial lines in the UK. This has been partially offset by reductions in UK Personal Motor and Italy. We continue to benefit from our focus on Specialty and premiums grew by 6% at constant exchange across the Group.

For the full year, we remain confident of delivering good premium growth, a COR of better than 95% and investment income of around £500m.

Simon Lee, Group CEO of RSA, commented:

"We have made a good start to the year, building on the organic growth momentum generated in 2011 with premiums up by 5%. Growth has been led by our areas of key strategic focus including Emerging Markets, where Latin America was a particular highlight, global Specialty lines and Household and Pet in the UK. For the full year, we remain confident of delivering good premium growth and a combined operating ratio for the Group of better than 95%."

[1] See notes to the IMS Note 4
[2] See notes to the IMS Note 1

Business Update

The Group has made a good start to 2012 and net written premium growth of 5% (5% at constant exchange) comprises 4% of rate on renewals and 1% from volumes, with volume growth in Emerging Markets offsetting reductions in UK Personal Motor and Italy. Across the Group, we continue to focus on Specialty with premiums up by 6% at constant exchange driven by Europe and the UK. Excluding one-off reinsurance adjustments in Scandinavia and Canada, global Specialty grew by 8% compared with the first quarter of 2011.

- Scandinavia

Scandinavia has delivered a good top line performance with premiums up by 1% to £667m (3% at constant exchange). Personal lines premiums of £299m were up by 6% (8% at constant exchange), with good growth in all countries driven by strong retention, continued rating action and a new distribution deal in Norway. In Commercial lines, premiums of £368m were impacted by reinsurance timing changes which will reverse during the year and were down by 2% (flat at constant exchange). Underlying Commercial growth of 2% at constant exchange represents the strongest first quarter for three years and was led by Norway, Care and Motor.

- Canada

Canada has delivered solid growth, with premiums of £303m up by 4% (3% at constant exchange) led by rate increases and strong retention. In Personal, premiums of £206m were up by 6% (5% at constant exchange) with a strong performance from Personal Broker which is up by 8% (7% at constant exchange) driven by Household and Motor. Premium increases in Johnson of 4% (3% at constant exchange) were impacted by slower initial growth on affinity deals signed last year and delays to planned portfolio acquisitions. However, our pipeline remains strong and we would expect momentum to accelerate over the remainder of 2012. Commercial lines net written premiums of £97m increased by 1% (1% at constant exchange) and, excluding the impact of a one-off reinsurance adjustment in the first quarter of 2011 related to the acquisition of GCAN, growth was 6% at constant exchange.

- UK and Western Europe

The UK delivered another good top line performance, with premiums of £725m up by 4%. In line with our strategy, we have driven growth in Household, Pet and Marine while being more targeted in Motor and in our Commercial Broker distribution.

In UK Personal, premiums are down by 2% to £330m with growth of 7% in Household, driven by last year's acquisition of Oak Underwriting and growth in Personal Broker, and 11% in Pet offset by a reduction of 17% in Motor where we have continued to push rate and reduced capacity in Personal Broker. We continue to build good momentum with affinity partners. In addition to the Home Retail Group Pet account coming onstream in the first quarter of this year, we are in the final stages of negotiation to provide Home and Pet insurance to John Lewis and Waitrose customers in the UK and have recently signed a deal with OIM Underwriting covering Household and Property which is expected to generate annual premiums of around £75m. Across UK Commercial lines, premiums of £395m are up by 11%. We continue to focus on Specialty lines with Marine up by 9% to £82m and good growth in UK Risk Managed. Commercial Motor is up by 9% to £130m due to rating action. In Commercial Broker distribution, we are implementing our targeted strategy and, as planned, we have withdrawn from around 200 of our least profitable relationships whilst continuing to work with our key brokers to build partnerships which enhance service and value.

In Western Europe, European Specialty is up by 11% to £73m with good growth in Spain, Germany and the Netherlands. In Ireland, growth of 1% (3% at constant exchange) to £95m is driven by 123.ie and Commercial Motor. Italian net written premiums were down by 23% (21% at constant exchange) to £44m as we continue to take significant action to improve profitability including exiting unprofitable distribution relationships and pushing through double digit rate increases in Motor.

- Emerging Markets

Emerging Markets again delivered excellent growth with net written premiums of £281m up by 20% (21% at constant exchange). Total premiums, including our associates in India and Thailand, are £359m representing growth of 18% (21% at constant exchange). Affinity continues to perform well and we won nine new deals across Emerging Markets in the first three months of the year.

In Latin America, premiums of £163m were up by 23% (25% at constant exchange) and we generated double digit growth in Chile, where Commercial Motor and Property contributed strongly, Argentina, due to Motor, Brazil, driven by Commercial Motor and Marine, and Colombia.

We have also seen strong growth in Asia and the Middle East, with premiums of £65m up by 18% (16% at constant exchange) led by Specialty and our retail operations in Singapore and Oman. Our associates delivered excellent growth, with premiums of £78m up by 15% (20% at constant exchange) driven primarily by Motor.

In Central and Eastern Europe, premiums are up by 10% (15% at constant exchange) to £53m. We have maintained our leading position across the Baltics with premiums up by 7% (11% at constant exchange) to £31m and our Direct businesses in Poland, Russia and the Czech Republic grew by 16% (22% at constant exchange), generating premiums of £22m.

A full breakdown of Group net written premiums and rating actions for the first quarter is included in the notes to the IMS.

Financial Position and 2012 Outlook

- Investment Portfolio

The investment portfolio totalled £14.4bn at 31 March 2012, marginally down on the year end position as a result of foreign exchange and other negative movements.

The Group continues to pursue its low risk investment strategy with 89% of the total portfolio invested in high quality fixed income and cash. Our exposure to peripheral European government debt remains limited at £139m or around 1% of the total portfolio, the majority of which is held to back the liabilities of our Irish and Italian operations. Looking forward, we will continue to follow our high quality, low risk strategy. Within this strategy, we see the potential for a further increase in high quality non government securities, from 60% at the end of the first quarter, towards 65% of the bond portfolio. We will also continue to take advantage of opportunities to modestly increase our holdings in longer dated securities.

- Shareholders' Funds and Capital Position

Total shareholders' funds including the pension scheme deficit were £3,902m (107p per share), compared with £3,801m at 31 December 2011 (104p per share) due to retained profits, fair value gains and the reduction in the pension scheme deficit. The pension scheme deficit of £140m at 31 December 2011 has decreased to £74m at 31 March 2012 reflecting the annual employer's contributions paid during the period and better than expected asset performance. As at 2 May 2012, net asset value per share including the pension scheme deficit is estimated at 106p.

Shareholders' funds as at 31 March 2012, excluding the pension scheme deficit, were £3,976m (109p per share) compared with £3,941m (108p per share) at 31 December 2011.

The Group continues to maintain strong capital positions. At 31 March 2012, the IGD surplus was in line with the beginning of the year at £1.3bn and coverage was unchanged at 2.0 times the requirement. The economic capital surplus remains significant at £0.6bn (31 December 2011: £0.8bn) with the movement since the beginning of the year primarily reflecting the declaration of the recommended 2011 final dividend. In terms of credit ratings, the Group was upgraded to A+ (stable outlook) by S&P in February 2012.

Our financing and liquidity position is also strong and our committed £455m senior facility remains undrawn as at the end of March.

Further details on movements in the investment portfolio, net asset value, pension scheme deficit and capital position are provided in the notes to the IMS.

- 2012 Outlook

Our guidance from the 2011 year end results remains unchanged and we continue to expect to deliver good premium growth, a combined operating ratio of better than 95% and investment income of around £500m for the full year 2012.

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Notes to the IMS:

1. Set out below are the net written premiums for each of the regions for the three months to 31 March 2012:

	Net written premiums Q1 2012 £m	Q1 2011 £m	Increase as reported %	Increase at constant exchange %
Scandinavia[1]				
Personal	**299**	282	6	8
Commercial	**368**	377	(2)	-
Total Scandinavia	**667**	659	1	3
Canada				
Personal	**206**	195	6	5
Commercial	**97**	96	1	1
Total Canada	**303**	291	4	3
UK				
Personal	**330**	337	(2)	(2)
Commercial	**395**	357	11	11
Total UK	**725**	694	4	4
Western Europe				
Ireland and Italy	**139**	151	(8)	(6)
European Specialty[2]	**73**	66	11	11
Total Western Europe	**212**	217	(2)	(1)
Total UK and Western Europe	**937**	911	3	3
Emerging Markets				
Latin America	**163**	132	23	25
Asia & Middle East	**65**	55	18	16
Central & Eastern Europe	**53**	48	10	15
Associates[3]	**78**	68	15	20
Total Emerging Markets	**359**	303	18	21
Group Re	**8**	5	60	60
Total Group including Associates	**2,274**	2,169	5	6
Total Group excluding Associates	**2,196**	2,101	5	5

[1] As detailed in the full year 2011 results, Care was reclassified from Personal to Commercial lines during 2011. In line with this adjustment, £56m of 2011 Personal lines premiums have been restated as Commercial in the above table

[2] European Specialty includes European Risk Managed Property and Liability previously reported in UK Commercial

[3] NWP from associates in India and Thailand, of which the Group controls 26% and 20% respectively

2. Rate movements achieved for risks renewing in March 2012 versus comparable risks renewing in March 2011 were as follows:

	Personal		**Commercial**		
	Motor %	**Household %**	**Motor %**	**Liability %**	**Property %**
Scandinavia	2	6	5	5	4
Canada	5	12	1	1	3
UK	8	7	9	2	3

3. The movement in the value of the investment portfolio from 31 December 2011 to 31 March 2012 is set out below:

	Value 31/12/2011 £m	Foreign Exchange £m	Mark to Market £m	Other Movements £m	**Value 31/03/2012 £m**
Government Bonds	**4,707**	-	(34)	(102)	**4,571**
Non Government Bonds	**6,967**	(25)	1	(107)	**6,836**
Cash	**1,258**	(2)	-	135	**1,391**
Equities	**771**	(3)	33	7	**808**
Property	**362**	-	(4)	(1)	**357**
Prefs & CIVs	**289**	(2)	3	4	**294**
Other	**104**	(1)	-	17	**120**
Total	**14,458**	(33)	(1)	(47)	**14,377**

The investment portfolio decreased marginally over the quarter to £14,377m due to foreign exchange losses of £33m, mark to market losses of £1m and other negative movements of £47m. The foreign exchange movement primarily reflects the strengthening of Sterling against the Danish Krone and the Canadian Dollar in the quarter.

At 31 March 2012, unrealised gains in the statement of financial position were £613m (31 December 2011: £603m).

Our high quality, low risk strategy is unchanged. Of the total investment portfolio, 89% remains invested in high quality fixed income and cash assets. The fixed interest portfolio is concentrated on high quality short dated assets, with 98% of the bond portfolio investment grade, and 74% rated AA or above. The bond holdings are well diversified, with 77% invested in currencies other than Sterling and 60% invested in non government bonds (31 December 2011: 60%).

The government bond portfolio of £4.6bn is high quality, with 85% rated AAA and 93% rated A or above. The non government bond portfolio of £6.8bn comprises £1.9bn of Scandinavian Mortgage Bonds, £3.2bn of other financials and £1.7bn of non financials. The Scandinavian Mortgage Bonds portfolio comprises £1.0bn of Swedish bonds, which are all rated AAA, and £0.9bn of Danish bonds, which are principally rated AAA. The Scandinavian Mortgage Bond portfolio has an average LTV of around 60%. Within the £3.2bn of other financial exposure, £0.4bn is in supranational and sovereign backed entities, £0.9bn in other non bank financials and £1.9bn in banks. Of the £1.9bn in banks, just £236m of this is subordinated debt and only £21m is Tier 1 (including non-perpetual preference shares).

On peripheral Europe, our exposure to government bonds in Greece, Italy, Ireland, Spain and Portugal remains limited at £139m or around 1% of the total portfolio. Of this exposure, the majority is held to back the liabilities of our European insurance operations, with £72m in Ireland and £42m in Italy. Additionally, we hold £1m of Greek and £24m of Spanish government debt. We also have limited exposure to senior and subordinated bank debt in these countries and our holdings totalled just £119m and £7m respectively at 31 March 2012.

As expected, the average duration across the Group has increased to 3.6 years (31 December 2011: 3.4 years).

Equities (excluding preference shares and Collective Investment Vehicles backed by fixed income and cash) now comprise 6% of the portfolio with approximately 61% of the exposure hedged with a rolling programme of put and call options, providing protection down to a FTSE level of 4,425. Around 2% of assets are invested in high quality commercial property.

Looking forward, we will continue to follow our high quality, low risk strategy. Within this we see the potential for a further increase in high quality non government securities, from 60% at the end of the first quarter, towards 65% of the bond portfolio. We will also continue to take advantage of opportunities to modestly increase our holdings in longer dated securities.

Investment conditions remain challenging, with yields still at historically low levels, however, our guidance is unchanged and we continue to expect investment income to be around £500m for the full year 2012.

4. The Group's shareholders' funds including and excluding the pension deficit are as follows:

	Shareholders' funds ex. IAS 19 £m	**Pension deficit £m**	**Shareholders' funds £m**	**Shareholders' funds ex. IAS 19 per share**	**Shareholders' funds per share**
31 December 2011	3,941	(140)	3,801	108p	104p
31 March 2012	**3,976**	**(74)**	**3,902**	**109p**	**107p**

As at 31 March 2012, shareholders' funds including the pension scheme deficit increased by 3% to £3,902m due to retained profits, fair value gains and the reduction in the pension scheme deficit.

The deficit on the pension schemes as at 31 March 2012 is £74m compared with £140m at the start of the year. The movement primarily reflects employer's contributions and a better than expected return on assets in the first quarter. The assumptions for the UK schemes are unchanged from 31 December 2011 with the discount rate at 4.9%, general inflation assumption at 2.8% and the inflation assumption for pension increases at 2.7% reflecting the 5% cap on annual pension increases.

Shareholders' funds excluding the pension scheme deficit were £3,976m, an increase of 1% over the quarter.

5. The Group's regulatory capital position under the Insurance Groups Directive (IGD) is set out below:

Insurance Groups Directive	**Requirement £bn**	**Surplus £bn**	**Cover**
31 December 2011	1.3	1.3	2.0x
31 March 2012	**1.3**	**1.3**	**2.0x**

The Group continues to hold a significant economic capital surplus of around £0.6bn at the end of March 2012 compared with £0.8bn at 31 December 2011 with movement in the quarter primarily reflecting the declaration of the recommended 2011 final dividend.

The economic capital is our own assessment of capital given the Group's risk profile. Our model is calibrated to a risk tolerance consistent with Standard & Poor's long term A rated bond default curve, equivalent to a probability of solvency over one year of 99.92% or a probability of insolvency over one year of 1 in 1,250. This compares with the 1 in 200 calibration under the

FSA's ICA regime, resulting in a higher capital surplus under ICA. Solvency II, which is currently expected to be implemented on 1 January 2014, will also be calibrated to a probability of insolvency over one year of 1 in 200.

In terms of credit ratings, the Group was upgraded to A+ (stable outlook) by S&P in February 2012 reflecting our strong competitive position and capitalisation.

6. Foreign exchange rates used to translate the 2012 and 2011 consolidated results included in this statement are as follows:

Local currency/£	Average		Closing		
	3 Months 2012	3 Months 2011	**31 March 2012**	31 December 2011	31 March 2011
Canadian Dollar	**1.57**	1.58	**1.60**	1.58	1.56
Danish Krone	**8.91**	8.73	**8.93**	8.90	8.42
Swedish Krona	**10.61**	10.39	**10.61**	10.65	10.11
Euro	**1.20**	1.17	**1.20**	1.20	1.13

7. Movements since 31 March 2012

As at 2 May, shareholders' funds are estimated at £3.9bn and net asset value per share is estimated at 106p. The IGD and economic capital surpluses are unchanged at £1.3bn and £0.6bn respectively.

A 30% fall in the FTSE from current levels of around 5,750 would reduce the IGD surplus by an estimated £0.2bn.

8. This trading update constitutes RSA's Interim Management Statement for the period 31 December 2011 to 2 May 2012.

About RSA

With a 300 year heritage, RSA is one of the world's leading multinational quoted insurance groups. RSA has major operations in the UK, Scandinavia, Canada, Ireland, Asia and the Middle East, Latin America and Central and Eastern Europe and has the capability to write business in around 140 countries. Focusing on general insurance, RSA has around 23,000 employees and, in 2011, its net written premiums were £8.1 billion.