NEWS

RSA Insurance Group plc

Q1 2014 Interim Management Statement

8 May 2014

Underlying trading in line with our expectations; underlying premiums down 4%[1]

Tangible equity of £2.5bn including rights issue proceeds

Good progress on our action plan: rights issue completed; disposal of Baltics and Polish operations announced; other portfolio actions underway

Trading update

- Underlying net written premiums down 4%[1] (down 9%[1] at headline level) as we see the effects of our portfolio action plan and a more disciplined underwriting approach across all regions.
- Underlying profit trends broadly in line with our expectations. Good results in Scandinavia; Weather impacts in the UK, Ireland and Canada, as previously reported.
- Capital metrics at 31 March 2014 (adjusted for impact of rights issue proceeds): IGD surplus c.£1.2bn with coverage of 1.8 times; ECA surplus c.£1.3bn with coverage of 1.5 times.
- Tangible equity £2.5bn, including rights issue proceeds (31 December 2013: £1.7bn).

Strategic update

- Good progress in executing our action plan as we look to tighten the strategic focus of the Group, build capital strength, and put in place building blocks to improve business performance.
- Rights issue completed.
- Announced disposal of operations in the Baltics and Poland.
- Making good advances with portfolio actions.

Stephen Hester, RSA Group Chief Executive, commented:

"There has been intense activity in the first quarter of 2014. We set out a clear action plan in February to transform the performance of the business and have made a good start in implementing it. We are especially grateful to shareholders for supporting RSA's new direction and the rights issue which has now completed.

"During the quarter we have also taken action to address underperforming portfolios, the results of which can be seen in our IMS today. Underlying premium and profit trends are generally in line with our expectations. Poor weather in the UK, Ireland and Canada negatively impacted first quarter profits.

"There remains much to do and we operate in a challenging and competitive market place. 2014 is a foundation year, but one where we hope to make solid progress. Our priorities will be consistent: to serve customers well; operate with capital strength; and focus on driving shareholder value."

[1] at constant exchange rates

Q1 2014 trading update

Market conditions

Insurance market conditions in Q1 2014 have been variable across our territories. In Scandinavia, conditions were relatively stable. In Canada there are some increased competitive pressures on rate, while in the UK these pressures are greater with falling prices at an industry level reported across both personal and commercial lines. Foreign exchange movements, notably the strengthening of Sterling during the quarter, have also had a significant negative impact on reported results.

RSA's strategy is to compete strongly to retain and attract business in profitable areas and to increase pricing and capital return discipline where required. As we have signalled, we are prepared to reduce premium volume if necessary as a consequence.

Premiums

Underlying Q1 net written premiums were 4% down from Q1 2013 at constant exchange rates (headline constant exchange rate decline was 9%, of which 3% relates to the Group Adverse Development Cover, 4% to Motability where we have restructured our contract, partly offset by higher premiums (2%) in UK Marine due to the changes in premium recognition methodology that we disclosed at our 2013 Interim Results). This 4% underlying reduction reflects both the start of our planned portfolio actions and lower new business acquisition as a result of our focus on pricing and capital discipline. Retention trends are stable and rate increases contributed 2% of growth overall.

On a regional basis the most significant impact on premiums is in the UK & Western Europe (down 12% excluding the Motability and Marine effects). This region is where the most significant of our portfolio actions are taking place and where price competition is fiercest. We have taken particular action in Personal Motor to both exit and avoid writing business that doesn't meet our target returns.

Profitability

At an underlying level profitability is broadly in line with our expectations. 2014 is expected to be a foundation year from which our action plans can deliver future improvements. On a geographic basis we have good results in Scandinavia and Emerging Markets and weaker results in UK, Ireland and Canada. Underlying current year loss ratios across the businesses are in line with our expectations. Expenses are being cut, though that is needed to compensate for premium reductions.

As highlighted at our Preliminary Results announcement in February, the flooding and storms in the UK and Ireland, as well as severe winter weather in Canada, significantly impacted results in the first two months of the year. For the full quarter, total weather costs of £111m were booked including costs of around £60m in the UK (total Group weather costs in Q1 2103, a relatively benign quarter, were £28m). Additionally, c.£10m more claims from the December 2013 UK storms have been booked in Q1 as adverse prior year development. It is clearly too early to forecast the extent to which these costs will be offset or otherwise by weather trends during the rest of 2014. In April, the Chilean earthquake is likely to have cost us £15-20m, though weather trends elsewhere during the month were benign.

Profit for the quarter was boosted by disposal gains from our equities portfolio and a Swedish property sale. We are evaluating the write down of goodwill in Ireland where we have taken some further moderate charges to strengthen margins and complete the actions previously announced. There will be other gains and provisions likely during the year as the foundations are laid for progress against our business and financial goals.

Our expectations for underlying results in 2014 are unchanged, and in the medium term we continue to target returns on tangible equity of 12-15% on a rising tangible equity base.

Strategic update

At the 2013 Preliminary Results announcement, we set out RSA's new strategy and action plan. The plan has three key elements, and at this early stage we are making progress in all areas.

1. **Tighten the strategic focus of the Group so that we can concentrate more effectively on performing sustainably well in core businesses.**

    - In April we announced the sale of our operations in the Baltics and Poland. Completion is expected during the second half of 2014.
    - We are progressing further disposals, some of which we expect to agree during 2014.
    - We have already started to make good progress on our other portfolio actions, exiting significantly underperforming portfolios, taking rate action where required, and re-focusing on the profitable parts of our core portfolios. Two examples of this are in the UK, where we have exited our arrangement with Ford and closed our eChoice offering.
    - As a consequence of disposals and portfolio actions, we continue to expect premiums (at constant exchange) for the 2014 full year to be up to 10% lower than in 2013.

2. **Reset the quantity and quality of capital strength the Group works with and the disciplines that will sustain it.**

    - In April we completed a £747m (net of costs) rights issue with strong uptake.
    - The sale of our operations in the Baltics and Poland is expected to add around £200m to tangible equity on completion with an expected gain on sale of around £160m.
    - To help secure the disciplines and behaviours that are needed to drive capital strength, we incorporated Business Review scorecard measures into the Group's incentive plans, which include a focus on capital strength and tangible net asset value as two of the measures.
    - Following the announcement of our action plans on 27 February, S&P upgraded the Group's credit rating to A 'stable'.

3. **Improve business performance and the Group's ability to sustain it.**

    - We are working hard on the areas of performance improvement we set out in February. These areas are underwriting, portfolio, distribution, expenses, technology, and people.
    - A priority for 2014 is to get the right team in place to drive through our plans. This will involve selective external recruitment to add to our strong internal teams. In April, we announced a new role of Group Chief Operating Officer, to which Paul Whittaker, formerly Chief Executive of our Emerging Markets division, has been appointed.
    - Work on the Group's cost base and areas for further investment (e.g. in revenue capabilities and technology) is ongoing. Expenses are coming down though we have much work left to do to establish the full potential in this area.
    - We intend to provide more commentary on the performance improvement measures at our Interim Results announcement on 7 August.

Net written premiums

	3 months 2014 £m	3 months 2013 £m	Change as reported %	Change at constant fx %
Scandinavia				
Personal	303	315	(4)	3
Commercial	358	379	(6)	(1)
Total	**661**	**694**	**(5)**	**1**
Canada				
Personal	205	241	(15)	-
Commercial	97	118	(18)	(4)
Total	**302**	**359**	**(16)**	**(2)**
UK & Western Europe				
UK Personal	294	330	(11)	(11)
UK Commercial	310	396	(22)	(22)
Total UK	**604**	**726**	**(17)**	**(17)**
Ireland	75	99	(24)	(22)
Italy	40	47	(15)	(13)
European Specialty	66	80	(18)	(15)
Total Western Europe	**181**	**226**	**(20)**	**(18)**
Total UK & W. Europe	**785**	**952**	**(18)**	**(17)**
Emerging Markets				
Latin America	159	187	(15)	14
CEE & ME	99	97	2	8
Asia	38	41	(7)	-
Total	**296**	**325**	**(9)**	**10**
Group Re	(60)[1]	10	(700)	(700)
Total Group	**1,984**	**2,340**	**(15)**	**(9)**
Memo:				
Asian associates	72	86	(16)	(1)

[1] Includes the impact of the Adverse Development Cover purchased in Q1 which is fully written in year one, but earned over five years.

Scandinavian premiums were up 1% at constant exchange to £661m. Personal grew 3%. Excluding the impact of the transfer of a Care portfolio from Commercial (NWP £6m), underlying growth was 1% reflecting good new business levels across Sweden and rate increases in Swedish Personal Accident and Motor, together with strong growth in Norwegian Household, partly offset by continued action in Danish Personal as we work to return that business to stronger profitability. Commercial premiums were down 1%, although on an underlying basis premiums grew by 1% excluding the impact of the Care transfer. This underlying growth reflects good growth in Danish Construction Power & Engineering, strong retention across the Danish Commercial portfolio, and ongoing growth in Norway, partly offset by actions we have taken in Sweden to prune the portfolio and obtain rate increases.

In **Canada**, premiums were down 2% at constant exchange to £302m. Personal premiums were flat, with growth of 7% in household due to continued rate increases (March 2014 v March 2013 rate increase of 9%) and good growth in the Western region. Motor was down 5% reflecting a disciplined and prudent approach in the Ontario market, together with strong competition in Quebec impacting new business levels and retention. In Commercial, premiums were down 4% driven by a challenging trading environment and the underwriting actions we have been taking on the portfolio, particularly where we have been re-underwriting or exiting poorer performing accounts.

UK premiums of £604m were down 17%. Excluding Motability, where we have made changes to our contract, and some one-off impacts in Marine, underlying UK premiums were down 8%.

In UK Personal premiums were down 11%. Household grew 2% despite competitive conditions and a softening rate environment. Pet premiums were up 5%. Motor was down 40% reflecting our portfolio actions. During the first quarter we achieved average rate increases of around 2% when market commentary suggests significant market rate reductions. As a result of this discipline, our retention and new business levels have been lower. We have exited our arrangement with Ford which accounts for £9m of the overall £43m reduction in Personal Motor premiums, and we have been reducing the number of Personal Motor broker partners we do business with. We have also consolidated our direct Motor offering to MORE TH>N and closed our eChoice offering.

Overall, on an underlying basis, premiums in Commercial were down 5% reflecting our continued discipline in a market where rates have generally been softening all year. UK Commercial premiums included two notable items. Firstly, Motability, where our new arrangements took effect from 1 October 2013, accounted for £88m of premium reduction in the first quarter. Excluding this, Commercial Motor was down 14% on an underlying basis as we have continued with further scheme and delegated authority exits, whilst focusing on writing our Mini and Regional fleets segments. Secondly, in Marine, as disclosed at our 2013 Interim Results, we have made changes to premium recognition methodology. This benefited topline in Q1 but will flatten out during the year. On an underlying basis, excluding this and some other smaller one-off impacts, Marine contraction of around 8% is reflective of both a soft market as well as a small number of relatively large lapses following management action on underperforming accounts. We expect this contraction to reduce in the remainder of the year. Property premiums were down 7% due to soft market conditions as we continue to maintain discipline and only write in those areas where we can achieve the right terms. Growth in Liability of £7m (13%) largely reflects a single new scheme written at the beginning of the year as well as targeted growth in our D&O and PA books.

In **Western Europe** premiums were down 18% at constant exchange. In Ireland, comparison with 2013 is difficult due to the previously announced accounting issues. However, underlying premiums were down around 8% driven by our ongoing work to remediate the business, with strong rate increases being put through across the Motor and Liability books. Premium reductions in European Specialty of 15% were due to targeted reductions as we take remedial action, and in Italy of 13% reflected contraction in Motor as we maintain pricing discipline.

Emerging Markets premiums of £296m were up 10% at constant exchange, but down 9% at reported exchange primarily driven by the significant deterioration of the Argentinian Peso in January. Growth in Latin America of 14% was driven mainly by Argentina and Brazil, with good growth also in Uruguay. All markets continue to be attractive and competitive, driven by low insurance penetration and a growing middle class across the region. In Asia, premiums were flat, due to the impact on Specialty of the Group's lower credit rating during the first two months of 2014. CEE&ME grew 8% in the quarter with strong performances in Russia, Oman and Latvia.

Investment portfolio

	Value 31 Dec 2013 £m	Foreign exchange £m	Mark to market £m	Other movements £m	**Value 31 Mar 2014 £m**
Government bonds	4,168	(59)	29	126	**4,264**
Non-Government bonds	7,083	(105)	41	492	**7,511**
Cash	1,162	(38)	-	252	**1,376**
Equities	582	(6)	6	(448)	**134**
Property	331	(1)	-	(28)	**302**
Prefs & CIVs	280	(8)	(6)	8	**274**
Other	146	(2)	-	(40)	**104**
Total	**13,752**	**(219)**	**70**	**362**	**13,965**
Split by currency:					
Sterling	3,493				**3,361**
Danish Krone	1,302				**1,360**
Swedish Krona	2,287				**2,706**
Canadian Dollar	2,947				**2,920**
Euro	1,763				**1,794**
Other	1,960				**1,824**
Total	**13,752**				**13,965**

The investment portfolio grew 2% in the quarter to £14.0bn, as a result of net cash inflows, partly offset by foreign exchange losses. The rights issue proceeds, received after the quarter end, have since added a further £747m to the portfolio.

At 31 March 2014, high quality widely diversified fixed income securities now represent 84% of the portfolio (31 December 2013: 82%). As reported at our Preliminary Results announcement on 27 February, we have reduced our exposure to equities during the first quarter to help improve our capital position. Equities now represent 1% of the total portfolio (31 December 2013: 4%). We also agreed the sale and leaseback of our Swedish head office. The proceeds have been reinvested into bonds or held as cash. Cash accounts for 10% of the total portfolio (31 December 2013: 8%). We would expect to invest the increased level of cash, together with the rights issue proceeds, into high quality fixed income over time.

The quality of the bond portfolio remains very high with 98% investment grade and 69% rated AA or above. We remain well diversified by sector and geography.

Average duration is unchanged at 3.8 years (31 December 2013: 3.8 years).

Balance sheet unrealised gains of £420m (pre-tax) increased by £28m during the quarter (31 December 2013: £392m) reflecting an increase in bond unrealised gains offset by a reduction in unrealised equity gains as we crystalised these by reducing our exposure to equities during the quarter.

Shareholders' funds

		Shareholders' funds ex IAS19	IAS19 Pension deficit	Shareholders' funds	Tangible net asset value
31 March 2014[1]	**£m**	**2,986**	**(1)**	**2,985**	**1,787**
	pence/share	**69**	**-**	**69**	**43**
31 March 2014[2] (plus rights issue)	£m	3,732	(1)	3,731	2,533
	pence/share	71	-	71	50
31 December 2013[3]	£m	3,018	(125)	2,893	1,665
	pence/share	70	(3)	67	40

[1] Share count includes the bonus element of the subsequent rights issue in accordance with IAS 33. Total share count of 4,127,681,940.

[2] Includes rights issue proceeds net of costs, and full additional share count. Total share count of 5,057,884,116.

[3] Restated to include the bonus element of the subsequent rights issue in accordance with IAS 33. Total share count of 4,126,968,044.

Tangible net asset value increased by £122m (7%) in the quarter. The movement was mainly driven by profits, fair value and pension fund gains, partly offset by foreign exchange losses.

Tangible net asset value per share increased by 3 pence to 43p. Including the full effect of the rights issue, tangible net asset value per share was 50p.

Capital position

		Requirement £bn	Surplus £bn	Coverage (times)
Insurance Groups Directive	**31 March 2014**	**1.5**	**0.2**	**1.2**
	31 March 2014 (plus rights issue)	1.5	1.2	1.8
	31 December 2013	1.5	0.2	1.1
Economic Capital (1 in 1,250 calibration)	**31 March 2014**	**2.5**	**0.6**	**1.2**
	31 March 2014 (plus rights issue)	2.5	1.3	1.5
	31 December 2013	2.4	0.7	1.3

At 31 March 2014, the IGD surplus was £0.2bn covering the capital requirement 1.2 times. The surplus remained unchanged in the quarter as the impacts of fixed income gains and profits, were offset by foreign exchange losses. Allowing for the rights issue proceeds, received in April, the surplus was £1.2bn with coverage of 1.8 times, with the increase of £1.0bn over the position at 31 March 2014 driven by the rights issue proceeds and the reversal of a hybrid debt restriction on the amount of loan capital that can be counted as capital resources.

The estimated economic capital surplus at 31 March 2014 was £0.6bn (on a 1 in 1,250 calibration) giving coverage over the capital requirement of 1.2 times. The surplus movement in the quarter was mainly due to yield impacts and pension scheme contributions, partly offset by profits generated in the quarter. Allowing for the rights issue proceeds, the surplus was £1.3bn with coverage of 1.5 times.

Supplementary information

Net written premiums by class

	3 months 2014 £m	3 months 2013 £m	Change as reported %	Change at constant fx %
Scandinavia Personal				
Household	95	101	(6)	-
Motor	118	130	(9)	(2)
Personal Accident & Other	90	84	7	14
Total	**303**	**315**	**(4)**	**3**
Scandinavia Commercial				
Property	121	128	(5)	(1)
Liability	75	71	6	9
Motor	81	88	(8)	(2)
Marine & Other	81	92	(12)	(6)
Total	**358**	**379**	**(6)**	**(1)**
Canada Personal				
Household	81	89	(9)	7
Motor	124	152	(18)	(5)
Total	**205**	**241**	**(15)**	**-**
Canada Commercial				
Property	46	52	(12)	5
Liability	23	32	(28)	(15)
Motor	20	23	(13)	-
Marine & Other	8	11	(27)	(20)
Total	**97**	**118**	**(18)**	**(4)**
UK Personal				
Household	165	161	2	2
Motor	64	107	(40)	(40)
Pet	65	62	5	5
Total	**294**	**330**	**(11)**	**(11)**
UK Commercial				
Property	112	120	(7)	(7)
Liability	63	56	13	13
Motor	49	143	(66)	(66)
Marine	86	77	12	12
Total	**310**	**396**	**(22)**	**(22)**

Net earned premiums

	3 months 2014 £m	3 months 2013 £m	Change as reported %	Change at constant fx %
Scandinavia				
Personal	245	255	(4)	2
Commercial	203	218	(7)	(1)
Total	**448**	**473**	**(5)**	**-**
Canada				
Personal	266	300	(11)	4
Commercial	122	145	(16)	(1)
Total	**388**	**445**	**(13)**	**2**
UK & Western Europe				
UK Personal	323	323	-	-
UK Commercial	365	390	(6)	(6)
Total UK	**688**	**713**	**(4)**	**(4)**
Ireland	85	91	(7)	(3)
Italy	51	59	(14)	(12)
European Specialty	31	33	(6)	(3)
Total Western Europe	**167**	**183**	**(9)**	**(6)**
Total UK & W. Europe	**855**	**896**	**(5)**	**(4)**
Emerging Markets				
Latin America	179	198	(10)	19
CEE & ME	97	92	5	10
Asia	36	33	9	20
Total	**312**	**323**	**(3)**	**16**
Group Re	6	10	(40)	(40)
Total Group	**2,009**	**2,147**	**(6)**	**1**

Rate increases

	Mar 14 v Mar 13 %	Dec 13 v Dec 12 %	Sep 13 v Sep 12 %	Jun 13 v Jun 12 %
Scandinavia				
Personal Household	**4**	5	6	8
Personal Motor	**1**	1	2	3
Commercial Property	**5**	4	4	3
Commercial Liability	**5**	4	5	4
Commercial Motor	**8**	7	5	4
Canada				
Personal Household	**9**	8	7	7
Personal Motor	**1**	1	-	-
Commercial Property	**4**	4	5	4
Commercial Liability	**3**	3	2	3
Commercial Motor	**1**	-	2	3
UK				
Personal Household	**1**	-	-	1
Personal Motor	**3**	2	(2)	(3)
Commercial Property	**2**	1	3	4
Commercial Liability	**5**	4	3	5
Commercial Motor	**4**	2	4	3

Note: Rating increases reflect rate movements achieved for risks renewing in the month versus comparable risks renewing in the same month the previous year.

Foreign exchange rates

Foreign exchange rates used in this statement are:

	Average rate		Closing rate	
	3 Months 2014	3 Months 2013	**31 March 2014**	31 December 2013
Canadian Dollar	**1.83**	1.56	**1.84**	1.76
Danish Krone	**9.02**	8.77	**9.03**	8.97
Swedish Krona	**10.71**	10.00	**10.81**	10.64
Euro	**1.21**	1.18	**1.21**	1.20
Argentinean Peso	**12.62**	7.78	**13.34**	10.80
Chilean Peso	**912.51**	733.13	**917.89**	870.19

Forthcoming events

9 May 2014	Annual General Meeting
7 August 2014	Interim Results announcement
6 November 2014	Q3 Interim Management Statement

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Conference Call

A conference call for analysts and investors will be held at 8:15am on Thursday 8 May to discuss the Q1 Interim Management Statement. Participants should call +44 (0) 808 237 0035 (toll free) or +44 (0)20 3426 2886. Scanning the QR code opposite will download details of the conference call to a smart phone. A webcast 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.