NEWS

RSA

RSA Insurance Group plc

Q3 2014 Interim Management Statement

6 November 2014

Good progress continues across RSA's restructuring actions to achieve strategic refocus, capital strengthening and cost reduction

Headline Q3 profit strong due to disposal gains. Q3 underwriting result weak overall

Premiums down 9%[1] (down 3%[1] underlying) in line with H1 trends and guidance

Stephen Hester, RSA Group Chief Executive, commented:

"The building blocks to support RSA's recovery are coming together. Since H1 we announced new disposals in Singapore, Hong Kong, China and Italy. The disposals of Noraxis, and our businesses in Poland, Lithuania and Estonia have completed, booking strong gains.

Our capital position strengthened further through these disposals, and a £400m subordinated bond issue in early October underlined RSA's credit improvement. We are progressing well in the areas of cost reduction, underwriting actions and refreshing our management line-up.

Overall, work continues towards meeting the medium-term performance targets we have set. Soft insurance and investment market conditions and a conservative outlook for prior year profit emergence seem likely to put even more emphasis on improving underwriting and cost re-engineering, which will take time to have full effect."

Strategic update

- Further good progress in executing our Action Plan to tighten strategic focus, build capital strength, and put in place the foundations to improve business performance.
- Announced disposal of operations in Singapore, Hong Kong, China and Italy.
- Completed disposals of Noraxis, business in Poland and, in October, Lithuania and Estonia.
- £400m subordinated bond issue in early October with a coupon of 5.1%.
- Detailed work underway to support our multi-year task to improve levels of sustainable business performance.

Trading update

- Net written premiums of £5.7bn down 9%[1] (down 3%[1] underlying) reflecting our portfolio action plan, a more return focused underwriting approach and soft markets overall.
- Headline Q3 underwriting result weak, but underlying current year profit trends continuing to improve; expenses on track for our reduction targets.
- Prior year reserve additions have largely offset areas of positive prior year profit emergence.
- Investment income in line with H1 trends, though reinvestment yields are down year-to-date which will impact future periods.
- Headline Q3 profit strong due to £198m disposal gains in the quarter.
- Tangible equity £2.9bn (30 June 2014: £2.6bn); £3.2bn pro-forma for announced disposals.
- Capital metrics at 30 September 2014: IGD surplus c.£1.9bn with coverage of 2.4 times (pro-forma for announced disposals); TNAV to premium ratio 39%.

[1] at constant exchange rates

Q3 2014 strategic update

We have made further good progress in the third quarter on our Action Plan as we tighten strategic focus, build capital strength, and put in place the foundations to improve business performance.

RSA's **strategy 'reset'** continues to run ahead of schedule, focusing the Group principally on its businesses in Scandinavia, Canada, UK & Ireland and Latin America. Since the end of the first half, we have completed the disposals of Noraxis - our Canadian brokerage, and operations in Poland, Lithuania and Estonia. We have also agreed the sale of our businesses in Singapore, Hong Kong, China and Italy. This brings total announced disposal proceeds for the year to date to £740m (of which £520m is now completed), with a pro-forma benefit to tangible net assets of around £560m (of which around £430m is now completed). Further disposals are targeted over the next 12 months to complete the process.

Our **capital and balance sheet health** continue to grow. Tangible net asset value at 30 September 2014 was £2.9bn (30 June 2014: £2.6bn). Our target of building tangible net assets to within a range of 35%-45% of our premium income remains, with the 30 September 2014 position being 39%[1] (30 June 2014: 34%). As discussed in August, we have also made good progress this year in our balance sheet clean-up work though we still anticipate some further actions during the remainder of 2014 in addition to ongoing cost reduction charges.

We have begun the process of extending maturities whilst reducing the interest cost of our debt capital. In early October we completed a £400m bond issue with a coupon of 5.1%. We have also announced that we will be calling our outstanding £450m issue (coupon of 8.5%) on 8th December this year. The combination of these two actions will result in an annual interest cost saving of £18m from 2015. We have two further instruments with call dates in 2017 and 2019.

With good progress made in the areas of strategic focus and capital strength, our efforts are increasingly dedicated to **improving and then sustaining business performance**. 2014 represents the foundation year of what is inevitably a multi-year task to improve performance.

During the third quarter we have advanced the more detailed and ambitious operational planning challenge of the business in our largest markets, that we discussed in August. Whilst we are still finalising the outcome of this work, it will result in further actions to underpin the quality and deliverability of our plans. We intend to provide a further update at our 2014 Preliminary Results announcement in February 2015.

Q3 2014 trading update

Market conditions

As reported by other industry participants, insurance market conditions in the third quarter have remained competitive across our territories. Pleasingly, conditions in Scandinavia have to date remained relatively stable. In Canada, Personal Household continues to respond positively to the weather events of the last 18 months, although continued pressures on rate have impacted Commercial lines. In the UK, pricing conditions remain soft across both Commercial and Personal lines. In Latin America, political and economic headwinds are evidenced by moderating nominal growth rates.

Foreign exchange movements, notably the strengthening of Sterling, continue to impact reported results. Interest rates have trended lower across our major markets further impacting the reinvestment rate on our bond portfolio (5 year government bond yields are down 40-150 basis points year-to-date in our major territories).

[1] tangible equity measured against rolling last twelve months net written premiums

Premiums and rate changes

Net written premiums at Q3 were down 3% on an underlying basis (excluding Motability and the Adverse Development Cover). At a headline level, premiums of £5.7bn were down 9% at constant exchange rates (H1 2014: down 9%):

Volume reductions including disposals & portfolio actions	(5)%
Rate increases	2%
Underlying 9 month 2014 movement at constant FX	**(3)%**
Group Adverse Development cover	(1)%
Changes to Motability contract	(5)%
Total 9 month 2014 movement at constant FX	**(9)%**

Rate changes:

	Sept 14 v Sept 13	Jun 14 v Jun 13	Mar 14 v Mar 13	Dec 13 v Dec 12
	%	%	%	%
Scandinavia				
Personal Household	**5**	4	4	5
Personal Motor	**5**	3	1	1
Commercial Property	**1**	3	5	4
Commercial Liability	**7**	5	5	4
Commercial Motor	**5**	5	8	7
Canada				
Personal Household	**11**	10	9	8
Personal Motor	**(2)**	(2)	1	1
Commercial Property	**5**	5	4	4
Commercial Liability	**4**	3	3	3
Commercial Motor	**3**	1	1	-
UK				
Personal Household	**-**	-	1	-
Personal Motor	**3**	5	3	2
Commercial Property	**3**	5	2	1
Commercial Liability	**2**	2	5	4
Commercial Motor	**1**	4	4	2

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

Net written premiums

	9 months 2014 £m	9 months 2013 £m	Change as reported %	Change at constant fx %
Scandinavia Personal				
Household	241	252	(4)	3
Motor	290	321	(10)	(1)
Personal Accident & Other	228	229	-	9
Total	**759**	**802**	**(5)**	**3**
Scandinavia Commercial				
Property	236	243	(3)	4
Liability	110	110	-	7
Motor	167	184	(9)	(1)
Marine & Other	123	145	(15)	(8)
Total	**636**	**682**	**(7)**	**1**
Total Scandinavia	**1,395**	**1,484**	**(6)**	**2**
Canada Personal				
Household	322	348	(7)	7
Motor	463	570	(19)	(6)
Total	**785**	**918**	**(14)**	**(1)**
Canada Commercial				
Property	154	184	(16)	(3)
Liability	86	110	(22)	(9)
Motor	71	83	(14)	(1)
Marine & Other	39	45	(13)	-
Total	**350**	**422**	**(17)**	**(4)**
Total Canada	**1,135**	**1,340**	**(15)**	**(2)**
UK Personal				
Household	480	483	(1)	(1)
Motor	206	295	(30)	(30)
Pet	200	170	18	18
Total	**886**	**948**	**(7)**	**(7)**
UK Commercial				
Property	465	501	(7)	(6)
Liability	225	217	4	4
Motor	158	485	(67)	(67)
Marine	218	256	(15)	(15)
Total	**1,066**	**1,459**	**(27)**	**(27)**
Total UK	**1,952**	**2,407**	**(19)**	**(19)**
Ireland	233	291	(20)	(16)
Italy	123	140	(12)	(8)
Total UK & WE	**2,308**	**2,838**	**(19)**	**(18)**
Emerging Markets				
Latin America	491	608	(19)	5
CEE&ME	290	311	(7)	(1)
Asia	107	114	(6)	2
Total Emerging Markets	**888**	**1,033**	**(14)**	**3**
Group Re[1]	(48)	46	(204)	(204)
Total Group	**5,678**	**6,741**	**(16)**	**(9)**

[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 2% at constant exchange to £1,395m. Personal grew 3% with strong growth of 7% in Sweden Personal driven by Household and Personal Accident due to a combination of good new business levels and rate increases. Swedish Personal Accident also benefited from the transfer of a Care portfolio from Swedish Commercial. Denmark Personal premiums were down 4% as we continue our work to return that business to stronger profitability. Norway Personal premiums were flat.

Commercial premiums were up 1% with growth of 3% in Denmark reflecting strong retention across the portfolio, good new business levels in Workers Compensation and Motor, and good growth in Renewable Energy. Our strategic partnership in Norwegian Hospital Care insurance continues strongly, and as a result Norway Commercial premiums were up 20%. In Sweden, premiums were down 7%, partly due to the transfer of a Care portfolio to Swedish Personal, but also as we have continued to take actions to prune our Commercial portfolio and increase rate.

In **Canada**, premiums were down 2% at constant exchange to £1,135m. Personal premiums were down 1%, with a 6% reduction in Motor partly offset by growth of 7% in Household. Household premiums included double digit rate increases as the market continues to respond to the weather events of last year, volumes remained flat. In Motor, premium reductions reflected the exit of certain broker relationships and lower new business and rate in Ontario.

In Commercial, premiums were down 4% driven mainly by the actions we have been taking on the portfolio, particularly where we have been re-underwriting or exiting poorer performing accounts. Property reductions of 3% are mainly driven by underwriting actions taken in Quebec, and Liability reductions of 9% are due to the exit of unprofitable programs and market leading rating action.

UK underlying premiums (excluding Motability) were down 7%. At a headline level, premiums of £1,952m were down 19%.

In UK Personal premiums were down 7%. Household premiums were down 1% reflecting competitive conditions and a softening rate environment. During the quarter we launched a Household offering with one of our affinity partners, Tesco, whilst elsewhere in Household we have traded selectively in response to the soft pricing environment. In Motor, premiums were down 30% as a result of our portfolio actions and pricing discipline. During the quarter we launched our MORE TH>N Smart Wheels 'black box' telematics product aimed at young drivers. Pet premiums were up 18% although, excluding the impact of a prior period pipeline premium adjustment made in 2013, premium increases were 8% mainly driven by rate increases.

In UK Commercial, underlying premiums (excluding Motability) were down 8% as we maintain underwriting discipline in a competitive market and a soft rate environment. Reported premiums were down 27% to £1,066m primarily driven by a reduction in Motability premiums as a result of our restructured arrangements which took effect from 1 October 2013. In our German Specialty business we ceased writing Risk Managed business with effect from 1 October 2014, but continue to actively write and grow our Marine business there. During the quarter we have launched a further two SME products onto our eTrading platforms to continue our growth in this segment of 8% year on year, as well as a new pricing strategy in Packages to ensure we are competitive in our target risks.

In **Ireland**, our remediation work is ongoing and, importantly, we have now filled a number of critical management vacancies. We have applied strong rate increases during 2014 in key lines requiring remediation, and as a result premiums at Q3 were down 16%. In **Italy**, premiums at Q3 were down 8% driven by the exit of underperforming distribution relationships.

Emerging Markets premiums of £888m were up 3% at constant exchange, but down 14% at reported exchange driven by the strengthening of Sterling. Growth in Latin America was 5% and includes the impact of the previously announced restructuring of our business in Colombia where premiums are down 25% as we exit our Personal and Commercial Motor business. There was strong growth in Argentina driven by the high inflation environment.

Outside Latin America, trading has naturally been affected by the disposal programme. So far in the second half we have completed the disposal of our businesses in Poland, Lithuania and Estonia, and reached agreement to sell our businesses in Singapore, Hong Kong and China.

Profitability

Underlying current year underwriting profit trends are broadly in line with our expectations at this stage in our Action Plan for most business units. During the quarter we have continued to generate improvements in the underlying current year loss ratio, although in amounts that vary across the portfolio. UK Personal was the exception to this trend in Q3 with backwards movement. We have continued to reduce expenses and are making good progress against the targets set out earlier this year, though expense reduction will initially lag premium reduction. These trends, on current year loss ratio and expense savings, are supportive of achieving the medium term targets we have set.

As at the end of Q3 we have booked total weather costs for the year-to-date of £228m which represents 3.8% of net earned premiums (H1 2014: 3.9%; Q3 YTD 2013: 2.7%). In August, storms in Scandinavia cost £26m, and a hailstorm in Alberta in Canada cost £11m.

Large losses for the year-to-date represent 7.2% of net earned premiums (H1 2014: 5.9%; Q3 YTD 2013: 8.1%). The increase in the ratio during the quarter mainly reflects large loss performance in Danish Renewable Energy and UK Commercial.

Prior year reserve emergence for the third quarter was slightly positive with the impact of reserve additions, notably in UK Professional Indemnity and in Ireland (discussed below), more than offset by positive prior year development elsewhere. We continue to expect there to be a modestly positive prior year result in normal years, but substantially below historic reported levels.

During the quarter we have made further prior year reserve additions of £27m in respect of our UK Professional Indemnity book. These additions have arisen from the 2008-11 underwriting years and relate to accounts that are now either remediated or exited.

In respect of UK Noise Induced Hearing Loss ('Deafness') claims, we are seeing a continued high level of notifications, and although claims frequencies are falling, the rate of decline is slower than anticipated. We have not made any changes to our Deafness reserves in Q3, however we continue to monitor developing trends closely.

In Ireland, our remediation work is progressing and underwriting losses are coming down as a result. It takes time for rating action to work fully through to reported results, and in some cases up to 2 years to restore desired loss ratios. We continue to target a return to profitability in Ireland by the end of 2015, though the year as whole is likely to record a loss.

Profit for the quarter was boosted by gains from the completion of our disposals of Noraxis (profit on sale of £164m) and in Poland (profit on sale of £34m). Q4 will see gains from our Lithuania and Estonia disposals which completed last week.

As we set out in February, 2014 is a year of laying foundations to support the re-set strategic direction. Our guidance of a c.10% reduction in premiums at constant exchange during 2014 is unchanged. We target improved underwriting profitability in the remainder of the year, though very much subject to weather/large loss volatility and prior year reserve movements; and anticipate further impacts from our balance sheet clean-up work during the remainder of 2014 (including a focus on discount rate and tax asset assumptions in the light of interest rate trends).

Investment portfolio

	Value 30 Jun 2014 £m	Foreign exchange £m	Mark to market £m	Other movt. £m	Transfer to assets held for sale £m	**Value 30 Sept 2014 £m**
Government bonds	4,258	(42)	37	9	(16)	4,246
Non-Government bonds	7,925	(44)	28	257	(240)	7,926
Cash	1,077	(8)	-	28	(62)	1,035
Equities	134	(6)	(6)	43	(1)	164
Property	324	-	9	2	(1)	334
Prefs & CIVs	287	1	(2)	(1)	-	285
Other	109	-	-	(1)	-	108
Total	**14,114**	**(99)**	**66**	**337**	**(320)**	**14,098**
Split by currency:						
Sterling	4,027					4,355
Danish Krone	1,207					1,138
Swedish Krona	2,391					2,381
Canadian Dollar	3,039					3,146
Euro	1,631					1,445
Other	1,819					1,633
Total	**14,114**					**14,098**

The investment portfolio remained flat in the third quarter at £14.1bn with net cash inflows and positive mark-to-market movements, offset by adverse foreign exchange movements and transfers into assets held for sale relating to the announced disposals of our businesses in Hong Kong, Singapore and Italy.

At 30 September 2014, high quality widely diversified fixed income securities represented 86% of the portfolio (30 June 2014: 86%). Equities represented 1% (30 June 2014: 1%) and cash 7% of the total portfolio (30 June 2014: 8%).

The quality of the bond portfolio remains very high with 98% investment grade and 67% rated AA or above. We remain well diversified by sector and geography.

The average book yield on the total portfolio was 3.1% (H1 2014: 3.2%), with average yield on the bond portfolios of 3.0% (H1 2014: 3.0%). Reinvestment rates in the Group's bond portfolios at 30 September 2014 were approximately 150bps lower than the existing average book yield.

Average duration is 3.7 years (30 June 2014: 3.8 years).

Balance sheet unrealised gains of £556m (pre-tax) increased by £61m during the third quarter (30 June 2014: £495m) driven mainly by lower bond yields.

Shareholders' funds

		Shareholders' funds	TNAV
30 Sept 2014	**£m**	**3,893**	**2,913**
	pence/share	**372**	**288**
30 Sept 2014	£m	4,174	3,176
(pro-forma for announced disposals)	pence/share	412	314
30 June 2014	£m	3,726	2,620
	pence/share	356	259

Tangible net asset value increased by £293m (11%) 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 29 pence to 288p. Including the anticipated benefit of announced disposals, tangible net asset value per share was 314p.

Capital position

		Requirement £bn	Surplus £bn	Coverage (times)
Insurance Groups Directive[1]	**30 Sept 2014**	**1.4**	**1.6**	**2.1**
	30 Sept 2014 (pro-forma for announced disposals)	1.4	1.9	2.4
	30 June 2014	1.5	1.3	1.9
Economic Capital[1] (S&P 'A' curve)	**30 Sept 2014**	**3.2**	**1.0**	**1.3**
	30 Sept 2014 (pro-forma for announced disposals)	3.2	1.2	1.4
	30 June 2014	2.7	1.1	1.4

[1] *The IGD and economic capital position at 30 September 2014 is estimated.*

At 30 September 2014, the IGD surplus was £1.6bn covering the capital requirement 2.1 times. The surplus increased by £0.3bn in the quarter as the impacts of profits (including disposal gains) and fixed income gains were partly offset by adverse foreign exchange movements. Allowing for announced disposals, the surplus was £1.9bn with coverage of 2.4 times.

The estimated economic capital surplus at 30 September 2014 was £1.0bn giving coverage over the capital requirement of 1.3 times. The surplus movement in the quarter was mainly due to the impact of lower yields and adverse foreign exchange movements, partly offset by capital generated (including disposal gains). Allowing for announced disposals, the surplus was £1.2bn with coverage of 1.4 times.

During the quarter the economic capital requirement increased by £0.5bn to £3.2bn, with available capital up by £0.4bn to £4.2bn. The movement in the requirement was driven mainly by removing the credit of the modelled disposal value of Noraxis from our capital assessment, together with yield and foreign exchange movements. Available capital has also increased as result of disposals including Noraxis.

Supplementary information

Net earned premiums

	9 months 2014 £m	9 months 2013 £m	Change as reported %	Change at constant fx %
Scandinavia Personal				
Household	227	238	(5)	4
Motor	272	304	(11)	(2)
Personal Accident & Other	225	230	(2)	7
Total	**724**	**772**	**(6)**	**2**
Scandinavia Commercial				
Property	235	250	(6)	1
Liability	98	98	-	7
Motor	158	172	(8)	-
Marine & Other	110	133	(17)	(11)
Total	**601**	**653**	**(8)**	**(1)**
Total Scandinavia	**1,325**	**1,425**	**(7)**	**1**
Canada Personal				
Household	314	331	(5)	10
Motor	469	561	(16)	(3)
Total	**783**	**892**	**(12)**	**2**
Canada Commercial				
Property	163	190	(14)	(1)
Liability	91	110	(17)	(4)
Motor	70	80	(13)	1
Marine & Other	41	44	(7)	8
Total	**365**	**424**	**(14)**	**-**
Total Canada	**1,148**	**1,316**	**(13)**	**1**
UK Personal				
Household	495	466	6	6
Motor	238	295	(19)	(19)
Pet	189	163	16	16
Total	**922**	**924**	**-**	**-**
UK Commercial				
Property	444	488	(9)	(8)
Liability	221	220	-	1
Motor	373	427	(13)	(13)
Marine	198	224	(12)	(12)
Total	**1,236**	**1,359**	**(9)**	**(9)**
Total UK	**2,158**	**2,283**	**(5)**	**(5)**
Ireland	252	282	(11)	(6)
Italy	151	169	(11)	(6)
Total UK & WE	**2,561**	**2,734**	**(6)**	**(5)**
Emerging Markets				
Latin America	524	598	(12)	13
CEE&ME	278	290	(4)	2
Asia	117	109	7	16
Total Emerging Markets	**919**	**997**	**(8)**	**10**
Group Re	14	29	(52)	(52)
Total Group	**5,967**	**6,501**	**(8)**	**(1)**

Foreign exchange rates

Foreign exchange rates used in this statement are:

	Average rate		Closing rate		
	9 Months 2014	9 Months 2013	**30 Sept 2014**	30 June 2014	31 December 2013
Canadian Dollar	**1.83**	1.58	**1.81**	1.82	1.76
Danish Krone	**9.19**	8.76	**9.55**	9.31	8.97
Swedish Krona	**11.15**	10.09	**11.69**	11.43	10.64
Euro	**1.23**	1.17	**1.28**	1.25	1.20
Argentinean Peso	**13.34**	8.17	**13.75**	13.91	10.80
Chilean Peso	**936.21**	755.20	**968.56**	946.64	870.19

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Conference call for analysts and investors

A conference call for analysts and investors will be held at 8:15am on Thursday 6 November to discuss the Q3 Interim Management Statement. Participants should call +44 (0) 808 237 0030 (toll free) or +44 (0)20 3139 4830, using conference ID 55243776#. A webcast of the call will be available via the company website (www.rsagroup.com).

Important disclaimer