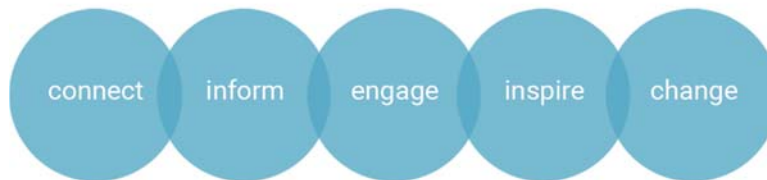


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RSA Group
2016 Preliminary Results
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RSA

Stephen Hester, Chief Executive Officer

Rupert Taylor Rea, Investor Relations Director

QUESTIONS FROM

Nadine Van Der Meulen, Morgan Stanley

Thomas Seidl, Bernstein

Olivia Brindle, Bank of America

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Presentation

Stephen Hester, Chief Executive Officer

Good morning everyone. Thank you very much for coming to our 2016 results presentation. If I could in advance first of all send you the Chairman, Martin Scicluna's apologies, he's sadly had a family bereavement, he would normally be here as you know. I also welcome my executive colleagues who are sitting in the front row who are available and I know have been talking to you, can talk to you afterwards and field questions if we don't know the answer.

So normal format, we'll present the slides that you also have in front of you and then take the Q&A.

I think by way of, I don't know, opening statement, I suppose I might make four points, which hopefully will be four points that will resonate through the presentation. The first is self-evident; we're reporting an excellent set of 2016 results. And I think as you get under the cover you'll conclude that they're excellent underneath it as well as at the headline level.

I think the second point that will come through is that this is not in our view anyway a flash in the pan, that we are as a company putting together an increasingly good track record of delivery; now three years in a row of improvements and fundamental improvements, not short term window dressing. And so that track record of quality and of delivery I think will stand us in good stead beyond simply one year of good results.

The third is that we're determined to do better. We believe that the future is bright for RSA; we believe we're nowhere close to what we could accomplish as a company and we're very, very determined to keep pushing on.

And the fourth if you like that packages up those three elements is what we're trying to be is a very high quality company, a company that administers as few surprises as possible, that's resilient to set backs and that's built in a really, if you like, impressive, well-oiled machine manner. That's what we're attempting to do, we think that we've made substantial progress in that and we think that all of those are relevant as you consider the investment proposition that RSA represents.

So diving into the slides I've talked about the RSA proposition and I'll just dwell on it a second longer. We have, through the major restructuring of the last three years, creating a focused mid-cap, with leadership in three important regional markets which we think have linkages and complementarity. And clearly that is the sweet spot, it doesn't mean to say that we'll perform to justify the sweet spot, but it is a sweet spot of P&C insurance, shareholder value creation.

We think that the story that we have put together is one of self-help where we're not relying on the markets to give us any tailwinds, which is just as well because they broadly are not, and as you know the insurance profit pool as a whole is not growing even though we have been growing our profit pool. And that self-help story has got increasingly high quality underpinnings.

Last year was a fairly testing year, we had all sorts of financial market volatility, you see that in the way pension deficits have knocked around. We also has some natural catastrophes, including the largest ever in Canadian history, which substantially has hit people like Intact, as well as impacted us, but we think despite all of those we demonstrated a resilience that perhaps RSA did not have in the past.

Obviously we've produced attractive earnings per share and dividend increases which in some ways are the acid test, we believe that can continue. We know that we've beaten consensus, we may not all the time unless we can persuade you to keep it suitably conservatively, but we do think that if our progress continues, and we will try hard to make it continue, that the stocks, despite its run is still extremely good value.



Turning to the highlights of the specific 2016 results, as you'll see we're able to report that the strategy refocus of the company has been completed, the balance sheet along with that clearly has been transformed. The performance progress we believe to be excellent and importantly driven by fundamentals, rather than unsustainable releases or good luck from the gods of weather.

We of course do have record underwriting profits and combined ratio. And we have hit a year before than we thought we would the upper part of our return on tangible equity range. But the entire company is not focused on any of those things, the entire company is not focused on turnaround, the entire company is now focused on can we move our business to best in class. It's focused on the future; it is focused on sustainable improvements.

The highlights of the financials I won't dwell on because obviously Scott will take you through. You can see the premiums are basically flat, ex FX. We talked about record underwriting, we talked about the balance between our businesses and we'll come on to do more of that.

I've put in here strategy slides, not a single one of which is new, and the reason for boring you with those is because I think when a company has changed as much as RSA it is often the case that people can have outdated views of what you are and what you represent and what you're trying to be. and we need to make sure that people understand that we are a company that is trying to set out a course, stick to the course, there are some things that we said three years ago that we're still saying today and I hope that will be the case year after year. We want to be a company of consistency.

And the essence of what we're trying to do is to outperform our industry, we believe that the 300 years of customer franchise that we are inheritors of, gives us the ability to perform better than this company has done in the past. It will require disciplined strategy, which we think we have given the company, a strong balance sheet, which we have restored to the company, and then of course the difference lies in how intense and accomplished we can make operational delivery and the levers continue to be customer underwriting and costs.

And the balance of our business is important, because while we believe we are much more focused, not just in attitude, but in business scope than ever before, and than the large caps in our industry, we have despite that focus, I think, enviable balance. And that means issues like Ogden or storms in Canada or whatever will disturb us less than some of the other focused mid caps in their own markets.

We also, I think, have an asset in terms of the three regions we've chosen to concentrate, and it's notable - you can see from the bottom right of this chart broadly, each year will be slightly different, but broadly we think that 40% of our operating profits will come from Scandinavia, a similar amount from the UK and the businesses run, associated with the UK, and 20% from Canada. We believe that business mix to be very attractive in terms of quality of earnings, stability of franchise, and the cash that we can throw off if we perform well.

And so all of that if you like adds up strategically in investor terms to the focused mid cap proposition that we are aiming to justify, translating regional leadership positions with intense performance focus. Hopefully increasingly excellent operational and financial delivery, adding that up to superior performance and we believe the quality that sits behind that should justify a superior P/E.

The P/E of the balance of our regional competitors is something like 14 times 2018 earnings, I think you could argue quite strongly that our diversity might earn us one day better than the sum of those parts, but at the moment we sit well below that and I think there are great opportunities for investors to realise the quality of what we deliver, as well as the quantity in terms of the earnings per share progression.

Let's turn to what we're up to, this action plan - previously we've been concentrated on the grey components, over the last three years in terms of implementing strategy, fixing the balance sheet, restoring performance and laying foundations to go further. We're now entirely focused on the purple



bits of this and I suggest to you that we can be focused on those things in perpetuity, doing better for customers, cleverer underwriters, lower cost and making sure we have people and a culture that makes that sustainable.

Our management approach we set out a year ago in terms of this new phase. It is unchanged. We spend our time internally, in our planning sessions at least, and then obviously trying to execute against it, trying to figure out what the best out there is in everything we do, it may or may not be in our industry, and trying to figure out how we can make that us and in what sequence and with what actions. And then we try and do those things and then we try and repeat it.

There are three big levers we've talked about. The customer lever is of course the first and in the long run the most important. But we are in flat markets and we want to be profitable. So we're doing many, many, many things which we hope will sustain our franchises, enhance our franchises, allow us to move with the time and make our top line more solid, which will come from happy customers, which in turn gives us the leverage to product happy shareholders.

We have, we would think a broadly stable franchise, you can see in our retention rates, broadly stable, our NPS scores and similar if you like qualitative scores are in the upper part of our industry and they are improving. But it takes time to really move the dial in customer terms and we are wanting to do it through fundamental improvements, which do take time. So I would expect this picture to slowly improve in the coming years.

There a number of slides in here that I'm simply not going to talk to because I know you have time after the presentation to read them, which hopefully provide some more colour beneath the surface of numbers that are generally moving positively.

I will just stop for one second on this slide though, and it is to say that of course one of the aspects of moving the dial as intensely as we have done on profitability has been that some of our less profitable business we've stopped doing. And that has had a top line consequence, which we don't mind, and indeed the highest rated and greatest creators of shareholders value, and I'll use for example companies like IF in Scandinavia have had similar non-exciting top line, but rather exciting shareholders returns.

However, it is our view that you can both, that you can have happy customers that do more business with you and good profits. And that is what we're trying to accomplish. And we believe that there are some signs that our customer initiatives are having an effect. And you can see on this chart some early signs of both improved retention rates in some of the businesses that were losing volume, some improved hit rates in terms of new business and certainly our January month showed progress over the same time a year ago, even when you take FX out of it, although of course it is only one month.

The second major performance lever, beyond customers is of course our underwriting. And that's in shareholders terms the most important. We, as you know, have been going about this in a really fundamental way, we haven't been relying on short term reserve releases, or good weather. We've wanted to improve the underlying quality of our underwriting, through portfolio re-underwriting, through the skills and disciplines of our underwriters and through the tools and technology that they deploy.

And you can see an increasingly, I think, impressive track record. We show on this slide four years of attritional loss ratio in every one of our three regions as well as the Group and you can see those are improvements that you won't find in many other companies. We believe there is more to go, probably we've done the most that there is to do, but we believe that this is more to go for over the next couple of years.

Again, I won't dwell on this slide, which simply gives, if you like some evidence of proof points, or indeed on the second one, except to say that while the early gains in attritional loss ratio and loss ratios overall came from let's say somewhat cruder portfolio changes, basically cutting out



unprofitable things, increasingly our gains are coming from and will come from improved sophistication. And as we piece by piece rewrite models, drop in new rating factors, put in new agility tools, we're seeing at a micro level, not yet moving the dial at the macro level, the micro level - new business improving and also loss ratio improving. And so the signs that we see of capability improvement applied to underwriting are giving us the encouragement that we can continue the loss ratio improvement.

The third lever as you know is costs, we've been doing well on that. We're able to today upgrade somewhat the 2018 position we thought we'd get to and Scott will obviously take you through more of the numbers as we go forward. In the end cost saving is vital to modern business, we're not close to where we need to ultimately get if we want to be the sort of competitor that we do want to be. In the end it is about less people, but not less people working stupidly hard, but less people being more and more productive through the tools we give them and more simple business processes that we ask them to operate.

I've put in the next two slides because I think that there is if you like some question of have we done it? Are we coming to the end of the improvements we can make to this company? It's been obviously an incredible ride upwards in terms of performance. And I think all we can say to you is that we don't believe we're anywhere close to as good as we could make this company. That is not to say we will succeed in making the company as good as we could, it's simply to say that that's what we're trying to do.

And we don't think of this in financial terms, we think of trying to make our company as good as it can be in actually what we do every day and how it's applied to our marketplaces and the financials are an output of that, rather than an input.

And one of the tools that we use internally is to look across a series of what I call self-improvement dials that the best companies in the world get good at and to understand where we think we are where best would be, although best moves every year and how we close those gaps and sequence that as I've mentioned. And this is an unscientific illustration of that process, but using charts that we actually use internally to illustrate the progress we've made, the progress we're planning to make, and also the areas where frankly we haven't yet got in our plans stuff that we need to get much better at if we're to fulfil our potential. And so you'll see simply from this chart that we think we've done well in terms of streamlining our management layers, that's what SPOC is called, Spans and Layers. We think we've done well in completely replacing the backbone IT and telephonic and so on infrastructure of our company. These are green things that are already in the zone of where the best companies in our industry are.

We think we've now done well in terms of procurement, and in terms of office closures, although we can do more as well. We think we're only scratching the surface in what data and analytics can do. We think we're better at digital than we were, but still not much better than basic and so on.

But our ambition is to be in the best in class category across all of these areas. And so not only do we have lots of work to do to see through the programmes that are already underway, but we have many, many areas where we can develop additional programmes to get better in the coming years.

We need to do that because the world will move on and if we don't do it we'll move backwards, still less move forwards, but we believe in doing it not only can we have customers that are happy with us, but we can be competitively strong and have happy shareholders and that's what we're trying to do.

A couple of minutes on how our different regions have been doing. You know one of the qualitative aspects I talked about earlier on was that we have this diversity across three regions, which if each of the three regions is itself high quality the sum of the three becomes greater than what each of the parts can represent. But historically our track record was every time we had one region doing well we had one or two not doing well, and so actually the sum of the parts was in fact not better as it should be.



We believe that our track record is changing here, the programme of improvement that we've got extends to every one of our business, we're doing the same things in every one of our businesses to improve and every one of our businesses is improving. In the year we've just reported on every one of our three major regional businesses hit or exceeded its operating plan, which of course was much better on an underlying basis than before. And we're really pleased with that consistency, which we think is adding quality to our delivery.

We set out a year ago if you like a financial expression of the best in class journey. This will be moving as competitors move and as I say it is only a financial expression, there's much that lies beneath it that's non-financial, but you can see it in terms of the better than combined ratio ambitions that we have set out last year. And in 2016 we made good progress on the journey towards those better than figures.

Scandinavia, of course our jewel, probably if you guys has the proper P/E on us would be half or more of our business. In Scandinavia there was a great deal of questions about whether we could close the gaps on frankly superior performing companies. I think you can see we are closing those gaps, but we're closing it a very different way than we did ten years ago. Ten years ago we closed gaps by massive PYD releases, now we're closing it by lower costs and better current year underwriting results. So you can see both the progression in combined ratio, but most importantly I think the current year combined ratio, which is now already amongst the best in Scandinavia and the attritional loss ratio that lies beneath that.

We've set out for each of our businesses a little more clearly than before the way we think about expense ratio, which is not as insurance companies publish them, but it is basically taking all of the expenses that we feel we control, whether buried in the claims line or elsewhere, we call them our total controllable expense ratio. And you can see that our Achilles heel in Scandinavia was we were too costly and we're making good progress on that.

And we've set there, as we have everywhere else, the target of being better than 20% in terms of what we spend relative to our premiums. I think that that target may for the Group take longer to reach than the combined ratio ambitions and will be an illustration of our ability to go perhaps further than our combined ratio ambitions in due course.

So we're really happy with how our business in Scandinavia is progressing, we're happy with the quality beneath it, we're happy with the ambition. There are of course many, many things that we can do better, both on a regional basis where we need to get Denmark and Norway to the level we have Sweden on a Commercial lines basis, where we need to get Commercial lines as good as we've got Personal lines, although they'll have different profit margins anywhere. We had some top line issues, in part through some of churn, management churn and IT churn that we've been doing. We need to improve those. There's lots more we need to do and can do we believe in Scandinavia. But the market is of course very nice, very high quality. There is a reason why the Scandinavian companies have done very well and we need to make sure we're in that high performing group.

The UK, I remember three years ago in this room when we started, if you like, the recovery part of our journey that there was intense scepticism as to whether the UK could ever be anything other than a millstone around our neck in performance, not unreasonably because for ten years it has been. We always know that there can be setbacks, but we do believe that there are a number of years where we've been doing hard work to improve the UK performance.

This is the first year in ten years that that hard work is showing up financially. But it's not showing up because we had incredibly underwriting luck, it's showing up because we made really important steps forward, you can see in the attritional loss ratio over three years the controllable expense ratio. We've lost a lot of top line in the UK, so we've had to do a bunch of running to standstill. But they have the same target in the UK as we have in our other businesses in terms of where we want to get on that.



So I think that we feel that we have a UK business that is no longer a laggard in its markets, that is in very much the respectable performance category. I think you'll see that as others report.

We're not very satisfied with respectable, we want to be best in class here as elsewhere and so we know there is a lot of work left to do. And I think the UK is inherently probably the most competitive of our markets and it is also where we have the biggest Commercial lines exposures, and so the biggest, if you like, natural underwriting volatility. But nevertheless we're really happy to no longer have to be explaining and apologising for this really important part of our business au contraire.

Canada has performed well over many years. But we believe that there has been and is much we can do to improve it and to make it less reliant on big prior year releases, as most of the Canadian market has been and to bring it closer in the quality to the market leader of what we're doing. And so there is much more going on underneath the surface in Canada than perhaps the headline of the results will show. But I believe that they will make our results more sustainable and higher quality increasingly over time.

In 2016 of course all Canadian companies will have been hit badly by CATS, in particularly the Fort McMurray, we were very protected by that through reinsurance as everyone was, but nevertheless it still cost us something like CAD\$75m post reinsurance. And so most combined ratios will be worse, as ours was in 2016 to '15. Although I'd note that ours is on a headline basis better than Intact, which doesn't happen very often, when you like for like account we're probably not better than Intact, but nevertheless it's company that I'm very happy to keep in Canada and we're going to have to work hard to stay close to them.

When I summarise therefore what we've been up to, as we've discussed the strategic refocus, not only is complete, but is really the key that unlocks the ability to focus resources and management on our three businesses and make them perform stronger.

As a result we are getting very good performance progress, we are getting good financial result, which Scott will talk about, but we are now focused on the future, making those results repeatable and making them repeatable at a higher level.

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Part Two

Telephone Operator

Welcome to the RSA 2016 full year results call. If you would like to ask a question please press *1 on your telephone keypad. I will now hand you over to Stephen Hester, Group CEO, to begin today's conference. Thank you.

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Stephen Hester, Chief Executive Officer

Hi everyone. Thank you very much for joining us for Part 2 of our results presentation. For those of you who were present in Part 1, I should let you know that Scott Egan, our CFO, who had a difficulty at that presentation seems to be recovering well. It looks like it was some interaction of a virus with some painkilling medicine that he was taking for a bad back. And so we expect him to be back in action shortly, but at the moment he's still resting - but anyway, our apologies for disrupting the presentation this morning.

But rather than carry on with the presentation because we had anyway got to the financial section and you'll have had the chance to read that for yourselves, we thought we would simply use this call to go straight to Q&A. Forgive me if there are some tricky numbers that I get to dodge in Scott's absence, but fire away and I've got Rupert here if I need to be bailed out. Thank you.



Questions and Answers

Telephone Operator

Okay so the first question comes from the line of Nadine Van Der Meulen, from Morgan Stanley. Please go ahead.

Nadine van der Meulen, Morgan Stanley

Thank you very much for taking my question. The first question I have is on leverage, given your increased capital strength, if you look at the Solvency ratio and particularly also in light of the uplift of that from the sale of the legacy asset you're likely going to be above the top end of your range. In terms of your prioritising deleverage, would you prioritise the upcoming July call on the restricted Tier 1, or would you prioritise the more expensive 9.5% coupon debt like you did - I think you did some redemption on that last year, would you mind commenting on that?

And then the second question is on the premiums, it looks like in all three regions the volumes have been under quite a bit of pressure, whereas we've seen rate increased in 2016, the volumes were still down, particularly in Scandinavia, but also within Canada and the UK. Could you comment on how you see that developing going forward? Thank you very much.

Stephen Hester, Chief Executive Officer

Sure, thank you. We're not being too precise on the debt retirement, because obviously that's a market just as our shares are in a market and we don't want to disrupt it more than we have to, but the reality is we will have to address both of the issues you mentioned, the Tier 1 because it's going to mature on us anyway in June. That doesn't mean to say we'll do something earlier, but one way or another that's gone in June, so we have to decide whether to replace some or not and if so how much. And obviously we have to decide that between now and June, so you'll know the answer at the half year. And secondly we - well you know the other issue also is gone within two years and we might want to make some of it gone earlier, I think we probably do. So we'll have to do something to both of them between now and June.

On your second question on volumes, I talked about that a bit earlier on in the presentation and I guess the way that I would describe it is that in the process of improving our profitability we were quite happy and are quite happy to sacrifice volume if it's not of adequate profitability. And indeed the most successful insurance companies out there from a shareholder perspective are probably the Scandinavians and none of the good ones grew premiums other than through acquisition in one case in the last year, or indeed on average I think in the last three years. And yet they have been very rewarding shareholders experiences. So we think that prioritising profits is the right thing to do.

However, we believe it is possible to do both; it is possible to serve customers well enough that they want to do more business with you and make your shareholders happy. And so the very many capability upgrades that we're putting through our business we believe will bite on the top line and we will see a return to volume growth, as well as the pricing that we've got. I think there is a 50/50 chance of that happening in 2017, but I definitely think it will happen.

Nadine van der Meulen, Morgan Stanley

Thank you, very clear, thank you so much.



Telephone Operator

The next question comes from the line of Thomas Seidl, from Bernstein. Please go ahead.

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Thomas Seidl, Bernstein

Thank you. The first question on the underlying loss ratio, combined ratio 93.7 it was at 94.7 at H1, but then I strip out not cut reserve releases, expenses, what is left is actually a significant deterioration of underlying loss ratio from 63.1 to 65.1, so my question is are you worried about this trend or is there any funny stuff why you report for the first time now since, I think, two years a rising underlying loss ratio?

Secondly, again to the top line, I'm still a bit puzzled here, yes you lose on constant currency in premium in each of the three markets, but you also report stable retention ratios, would that not mean that the average premium per policy, per customer goes down and hence pricing trends to the negative, at least that is what is implied by what you disclosed?

And thirdly on the reserves, I think maybe you can clarify but I'm not sure because Scott is not here, he mentioned that you increased the reserve buffer by 0.5 and he related this to the Ogden, so does this imply that the 0.5 basically you increased the reserve buffer is what you'd expect in terms of hit from the Ogden decision?

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Stephen Hester, Chief Executive Officer

Okeydokey let me have a go at some of those and Rupert, by all means butt in if I'm getting the maths wrong.

On the first half / second half underlying loss ratio, I don't follow your maths precisely and Rupert can follow up with you on the maths afterwards, because I think the maths are better than the ones you just gave, but I'm afraid I don't have it well enough in my head to spot exactly what the bit of your maths that went wrong was. However, aside from the specific numbers, it's correct that there was not much improvement in the second half versus the first half in the underlying loss ratio. And that's particularly true when you look year on year.

We're not troubled by that, we're not troubled by that for the following reasons: number one, that 2015 was a very weird pattern where we had quite slow actuarial recognition of improvements and so we had a very unusually good second half, much of which really should have been reported in the first half if the actuaries had been faster. So to start with the half patterns in 2015 against which you might compare 2016 were unusual.

Secondly, in 2016 in the first half we had a benign winter and that meant that the element of winter weather that hits attritional loss ratios, which is principally Canadian Motor and Household was much better than usual. And so Scott mentioned on the call of the 2.5% increase in Canadian underlying loss ratios 1% of that was related to attritional weather which we wouldn't expect to repeat in a normal year and hence - and since all of that was in the first half Canada is the main place where there's a half one versus half two apparent backwards movement, primarily associated with that.

There is also some other noise that can occur in what we call mid level claims that don't get categorised in weather and large loss, but nonetheless are - because they're not quite big enough for that - but nevertheless can distort ratios over short periods of time and so there is a bit of noise in mid level claims in a few property areas.

So all of those things are why we're not especially worried, except to say the first half of '16 was flattered, the second half is probably better than it looks and we believe that 2017, taken as a whole,



will be better than 2016 taken as a whole in underlying loss ratio. It doesn't mean a whole hell of a lot, January is supportive of our belief, but obviously that's 30 days.

Your second question was - could you repeat your second question Thomas?

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Thomas Seidl, Bernstein

Yes, the second question was very simple - on the top line you lose at constant currency ...

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Stephen Hester, Chief Executive Officer

Okay I understand. But part of why our retention level is constant and we still lose volume and that's because they are constant with the prior year and we lost volume in the prior year too. And that's because we're not doing enough new business to replace retention and if we wanted volume growth we'd either have to have better retention, or better new business, or both in order to move the trend upwards. So it's the comparison to the prior year where we also lost volume. So that's the answer to that.

And then the third was Ogden and Scott mentioned we could have reported £45m more PYD than we did in the year, and since we regard PYD as a lower quality source of earnings we tucked it away as a cushion against Ogden, which would also be largely a PYD event. We haven't the first idea what Ogden will be, we think it is highly like to be contained within that amount, we don't want to give out precise Ogden points and numbers because we think it's a political argument at the moment and we don't want to fuel it. But because UK Motor is only 4% of what we do and because we sold legacy we're comfortable with our position and we may have more reserves than we need in that extra margin.

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Thomas Seidl, Bernstein

And maybe a follow up on the reserve if I may, would you say it's the right moment to increase guidance on future reserve releases?

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Stephen Hester, Chief Executive Officer

No, we genuinely plan - if you looked at our operating plan, we plan around 1% a year across the company as a whole. We plan a bit higher than that in Canada because our Canadian actuaries seems to be systematically more conservative. But for the company as a whole our operating plan has a 1% you know on average across the next three years. I haven't the first idea truthfully what it will be because our actuaries, they don't know themselves, and if they did they wouldn't tell me because the actuaries are supposed to be reserving at neutral, which of course they seldom do.

So all I can tell you is what we plan for and therefore implicitly we are assuming less PYD in the future than we were able to record in 2016, whether we're right to make that assumption I genuinely don't know.

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Thomas Seidl, Bernstein

Okay, thank you very much.

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Telephone Operator

The next question comes from the line of Olivia Brindle, from Bank of America. Please go ahead.

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Olivia Brindle, Bank of America

Hi there I have two high level questions I guess. The first one is just on the earnings front, so in the past you've sort of pointed towards a number of maybe 55p, something like that in EPS terms in a blue sky scenario, I'm just wondering how you're thinking of that now post legacy, that would be interesting?

And then the second question is around potential uses of capital, and I know you've made very clear that the priority is buying back the debt, but I'd be interested to get your thoughts on how you distinguish between potentially doing specials, or upping the payout ratio, just looking at the fact that payout ratio for 2016 was at the low end of your target range, just 40%, which intuitively feels quite low. So if you did have capital to spare, how would you like think about the basic versus special dividends?

.....

Stephen Hester, Chief Executive Officer

Sure, okay Olivia, I suppose my view of our different earnings scenarios has not changed since I made those views clearer in the second half of last year with the exception of the mechanistic impact of legacy. But I think the key point about it is probability weighting, which is to say that what I said before was if we were able to get to best in class in all three markets simultaneously you would have a blue sky scenario of earnings per share in the 50s in let's say '18, or '19 depending on how optimistic you were about timing.

So I said that is what we're aiming for, so then the question is by what amount should you discount our ability to get there based on the fact that we've never been anywhere close to that before and by definition not very many other companies are either. And therefore you know it is still my view that it would be mad to put those levels of achievement in as a certainty, although you should be completely clear that that's what we are aiming to do.

Now you might well believe that it is more likely after the year we've had in '16 that we get there than you thought at the beginning of the year. And that would be a legitimate view of the odds, but I think you'd still be mad to put that in as your central scenario, even though that is definitely what we're trying to do.

What should be your central scenario I'll leave to you to guess because it's just a matter of taste and how much proof you, or I, or any of us need, I really don't know the answer. What I would say to you is if consensus earnings per share didn't rise by a single penny and you call got the P/E right, our share price would be over £7 anyway, so we should concentrate on the quality of earnings. But maybe that's a gratuitous piece of grandmother teaching somebody to suck eggs.

Your second question Olivia was on uses of capital, and I'm afraid I'm going to continue to be potentially unpopular on this, we want to, and I want to make a strong point that we are not going to be bullied by the market ever to over distribute. And therefore we are probably going to under distribute in the short run. Or put a different way we are going to be want facts to lead a distribution. I think that's the right way for companies to be, I want us to be valued for the high quality of our earnings and our cash flows, not just because people are lazy and look at a dividend yield. And I'm willing to take some market hits to make that point.

I think it is the right thing to do to use our surplus capital from legacy to make our capital position more bullet proof through reducing the leverage, which is currently higher than that of other companies. That has the beauty of reducing risk, improving the quality of our capital and improving



earnings. So I think it's an entirely legitimate thing to do and I think it's the right thing to do to prioritise in 2017.

As we go out in time and if we are maintaining an attractive earnings trajectory, which we obviously will aim to do, then I think both your other points come into play. There is room to move our regular payout up in the range as you remark and I do think that there every possibility that there will be room in 2018 for more than that and so I wouldn't preclude either. Obviously you know I think a neutral position for our regular dividend is in the middle of our payout range, say 45, so that if you have volatility it can swing between 40 and 50 without you have to mess around with a regular payout. So I doubt we'd raise it in a normal year beyond 45 so that we can do that and then the rest we'd probably do in one off fashions. And that's at the moment how we're thinking about it.

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Olivia Brindle, Bank of America

That's very clear. Thanks very much.

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Telephone Operator

The next question comes from the line of Greg Patterson from KBW. Please go ahead.

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Greig Patterson, KBW

Just in terms of prior year development you had two points of prior year development. There was negative development in Ireland and you strengthened the margin to anticipate Ogden, so to me that's a fairly bullish sort of circa nearly 3% prior year development. I was wondering if you could talk about where those came from and why. I know you're reluctant to give an idea of where you think the Ogden - your Ogden sensitivities are but I'd be interested to know what your current discount assumption is for Ogden?

And then just in terms of going forward since you've effectively exited Broker and many parts of Motor is it fair to say - and you're basically only going in the riskier elements via telemetrics is it fair to say that you or in terms of future underwriting you're relatively unexposed to Ogden?

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Stephen Hester, Chief Executive Officer

Just on the Ogden questions because Ogden we don't believe will be financially material to us I'm just keeping quiet about it because I don't want to cross feed and make other people's lives difficult or the political environment or the media environment more difficult about it. So I'm sorry to be a pain but it doesn't matter to us and so you need to go to the companies for whom it does matter to be more helpful. So I apologise for that. But I can say that not only do I think it's unlikely to matter in PYD unless it's something very extraordinary. It's unlikely to be noticeable in ongoing, A, because of the UK Motor is only 4% of what we do and B, because we would expect to take pricing action for that element that impacts it and so we don't think it will end up being a big deal for those reasons.

In terms of your first question the unusually good PYD came from Canada and the UK. Canada is in part because the actuaries are too conservative in my opinion and also it's a phenomenon you'll see across the entire Canadian market, I don't think our PYD is higher than others. So there wasn't a particular reason other than I think they're conservative. But equally you've had very jagged weather and other trends and lots of Motor reform in recent years, so it may be that the actuaries were particularly conservative in the face of those two factors, which is why we don't plan even in Canada for that level to sustain.



And the UK there were a range of good experiences. Some were low quality because we over reserved for last year's storms. We obviously didn't know we did but I think there's something like £20m of the PYD was December storm reserving that in the end didn't get paid out. And then there was some other stuff, forgive me I'm not absolutely in the detail to remember what it is, but either way we still believe that the UK is likely to be more like 1% on an ongoing basis than what it was last year. You'll recall when was it 2014 we had negative PYD in the UK so you know the nature - the whole reason why I don't like running a company based on reserve releases is because it's volatile and unpredictable and I think we should run our business without needing it.

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Greig Patterson, KBW

Thank you very much, excellent.

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Telephone Operator

The next question comes from the line of Cameron Hussain from RBC. Please go ahead.

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Kamran Hossain, RBC

Hi afternoon, two questions. The first one is just on the Irish business. Could you just maybe give an update on when you expect that to - I know the medium term say it's 94 but when you might expect that to break even? So that's question one.

And question two is just back on the dividend point. 2018 is probably likely to be the first year of I guess post restructuring, post reorganisation clean earnings. At that point should we look to something or is it - or am I going to get the same answer as everyone else that debt is the focus?

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Stephen Hester, Chief Executive Officer

On the second of your questions I agree our expectation is 2018 will be a very clean P&L year with underlying the same as face and will be a year where we have surplus capital, that is our expectation. If our expectation comes true we then have to look at what the uses of that surplus capital would be and returning some of it to shareholders would definitely be one of the eligible uses. Obviously I can't say more than that.

On Ireland our plan is to be profitable in Ireland this year. We already are on the current year so I'm hoping that the current year strengthens from the barely profitable it was last year to a more respectable profitable. The PYD is still a volatile series for us until our claims trends are longer post the complete revamp that we had to do in 2014 and so that's a harder one to call but you know normally we don't expect negative PYD. Is it possible? Again in Ireland it is possible but it's hard to plan.

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Kamran Hossain, RBC

Fantastic thanks very much for the colour.

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Telephone Operator

The next question comes from the line of Andrew Crean from Autonomous. Please go ahead.

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Andrew Crean, Autonomous

Good afternoon all, three questions if I can. Firstly I think your unrestricted Tier 1 is 58% of your total available capital. Do you have a target for that?

Secondly I still think you've got about is it £260m, £270m of Tier 3 which is not eligible. Can you talk a bit about the circumstances which would allow you to bring that on and counting for your capital position?

And thirdly given the torturous position of the Irish business why don't you sell that?

Stephen Hester, Chief Executive Officer

Do you have a buyer?

Andrew Crean, Autonomous

There must be consolidation buyers out there; there are some companies which are doing quite well, a German one.

Stephen Hester, Chief Executive Officer

Personally I think in the medium term the Irish business can be very attractive for us. My understanding is that one of our competitors is likely to report a 94 combined in Ireland or better this year with a business that looks sort of like ours. And if we could do that and if we could make it consistent I think it's very logical for us to have it as a strong and attractive asset. I think the price of selling it in the current state of the Irish market and without a track record would be throwing shareholder money away. I hope I'm right in that judgement, obviously time will tell.

On your questions Andrew on capital, I would say that we become more pragmatists at the level of detail that you're asking and therefore my answers are shiftable and not definitive, but my comfort level is to have equity capital cover the SCR, i.e. be around 100% of the SCR which it sort of is now post legacy. And my preference is to have at least 150% coverage of Solvency II without relying on any Tier 3 because I consider Tier 3 to be economically bogus capital. And so those are my current thoughts. Now that doesn't mean to say that we wouldn't throw either of those thoughts out the window if there was a good reason to but that's my current thought.

Andrew Crean, Autonomous

Under what circumstances can you bring the rest of the bogus capital into your calculations?

Stephen Hester, Chief Executive Officer

Well if we got rid of other forms of Tier 2 and Tier 1 so that we had space within the 50% of SCR that's allowed to be taken up by Tier 2 and Tier 3, and if we didn't care what percentage Tier 3 could be then we could use more of the Tier 3 although there is also a limit on Tier 3 which I'm afraid is not in my head at the moment. 15% of SCR is that right we would say?

Rupert Taylor Rea, Investor Relations Director

Less than 15% of SCR.



Stephen Hester, Chief Executive Officer

So there's a cap on it. So I think it's unlikely that we'd use the Tier 3 assets in their entirety even if we did those other things.

Telephone Operator

Okay we have no further questions coming through so Stephen I will hand the call back to you.
Thank you.

Stephen Hester, Chief Executive Officer

Terrific. Well again thank you very much for the time both this morning and coming back. Clearly you know where to find us and Rupert in the coming days as you work through what all of this information means.

And I think the closing thoughts I'd leave more in repetition of the opening thoughts of this morning is we think that by any standards RSA has moved well beyond being a turnaround discussion and into an outperformance discussion. We think that the quality of what we're doing and the quality of the basic set of our business and its geographic distribution merits a higher P/E than you're giving it but we realise we have to prove that over time. And we believe we can get continued attractive earnings and dividend increases whether they are the ones that our ambition says or something that falls short of that I can't tell you. I know what we're aiming for; I don't know what we'll deliver but any which way you look at it I think we'll be an attractive stock to own.

Thank you very much for joining us.

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