NEWS

RSA Insurance Group plc
Q1 2017 Trading Update

4 May 2017

RSA reports continued good progress in Q1 2017

Premium income[1] up 14% (4% at constant exchange)

Strong underwriting results; attritional loss ratios and expenses improved again

Successful completion of UK legacy disposal and capital restructuring

Stephen Hester, RSA Group Chief Executive, commented:

"The year has begun well for RSA. Results to date are strong with key proof points for further progress coming through positively.

"We also completed the UK legacy disposal and related capital restructuring successfully, to reduce risk, improve capital resilience and boost profits.

"The Group's entire focus is now on our drive for outperformance – serving customers and shareholders."

Trading update

Market conditions

- Insurance and financial market conditions are largely unchanged.

Premiums

- Group net written premiums of £1,710m for Q1 2017 are up 14%[1] as reported, and up 4%[1] at constant fx rates, versus Q1 2016.
- This improved trend reflects the capability enhancements we have been implementing.
- Volumes accounted for 2% growth in the quarter, with rate increases also adding 2%.
- Scandinavian premiums of £664m were up 14% as reported and up 2% at constant fx. Volume growth was flat with rating increases of 2%.
- Premiums in Canada of £267m were up 28% as reported and up 6% at constant fx. Volume growth was 1% with rating increases accounting for a further 1% growth. There was also a 4% benefit from lower reinsurance costs. Growth was particularly good in the broker channel, and retention rates improved across the business.
- UK premiums of £629m were up 10% as reported and up 7% at constant fx with volume growth of 5% and rating increases adding 2%. New business levels were higher than a year ago and retention was strong across the business.
- Premiums in Ireland of £62m were flat as reported and down 10% at constant fx; Middle East premiums of £59m were up 23% as reported and up 7% at constant fx.

[1] *Excluding impact of Latin America & Russia disposals in 2016.*

Profitability[1]

- Operating profit in the first quarter was strong and ahead of our plans.
- Underwriting performance was also strong and included:
  - The attritional loss ratio, expenses and expense ratios all better than prior year, as targeted;
  - Weather and large loss ratios of 2.0% and 9.8% respectively (versus long term averages of c.3% and c.8.5%). Weather experience was relatively benign across the Group with the exception of Canada which saw the impact of windstorms across Newfoundland and Ontario in March;
  - A net charge (after release of FY16 margin build) of c.£40m in the UK relating to the change in Ogden discount rate. However, this was more than offset by positive reserve development elsewhere in the Group. As a result, prior year profits were in line with our expectations overall.
- The investment result was consistent with current year guidance.
- Below the Q1 operating result we have booked (as flagged at our 2016 full year results) a net realised gain of £67m in relation to the disposal of our Legacy liabilities, the £22m cost for commutation of the adverse development reinsurance cover, a charge of £56m for premium paid on the debt buybacks completed at the end of March, and planned charges relating to our cost/reorganisation activities.

Balance sheet and capital

- At the end of March, we announced the successful completion of our planned capital actions for 2017. These actions comprised the disposal of our UK Legacy liabilities (announced in February); issuance of c.£300m of restricted tier 1 notes in Scandinavia; and retirement of £592m of existing high coupon debt.
- Following these actions, we expect reduced interest costs of c.£54m for 2017 and a little over £40m in 2018 (2016: £99m).
- Tangible shareholders' equity at 31 March 2017 was £2,875m (31 December 2016: £2,862m) and tangible net asset value per share was 282p.
- Balance sheet unrealised gains were £545m as at the end of the first quarter, down £84m or 13% since year end. The movement reflects the realisation of gains on the transfer of assets to the buyer of our Legacy liabilities, together with the pull to par of other unrealised gains in the quarter.
- The Group's Solvency II coverage ratio was 166%[2] at 31 March 2017 (31 December 2016: 158%), with tier 1 and 2 capital providing 151% coverage.
- The increase in coverage ratio since year end includes the benefit of the Legacy disposal, partly offset by the net reduction in debt. There were further impacts from profits in the quarter and the accrual of a 'notional'[3] dividend for the first quarter. Market movements were modestly positive in the aggregate.

[1] Comments and figures at constant fx rates where prior year comparisons are given.
[2] The Solvency II capital position at 31 March 2017 is estimated.
[3] This 'notional' amount should not be considered in any way to be an indication of actual dividend amounts, if any, for the 2017 financial year.

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Conference call for analysts and investors

A conference call for analysts and investors will be held at 08:30am on Thursday 4 May to discuss the Q1 Trading Update. Participants should call +44 (0)808 237 0030 (toll free) or +44 (0)20 3139 4830, using participant pin code 46119506#. A recording of the call will be available via the company website (www.rsagroup.com).

Important disclaimer

This press release and the associated conference call may contain 'forward-looking statements' with respect to certain of the Group's plans and its current goals and expectations relating to its future financial condition, performance, results, strategic initiatives and objectives. Generally, words such as "may", "could", "will", "expect", "intend", "estimate", "anticipate", "aim", "outlook", "believe", "plan", "seek", "continue" or similar expressions identify forward-looking statements. These forward-looking statements are not guarantees of future performance. By their nature, all forward-looking statements are inherently predictive and speculative and involve risk and uncertainty because they relate to future events and circumstances which are beyond the Group's control, including amongst other things, UK domestic and global economic business conditions, market-related risks such as fluctuations in interest rates and exchange rates, the policies and actions of regulatory authorities, the impact of competition, inflation, deflation, the timing impact and other uncertainties of future acquisitions or combinations within relevant industries, as well as the impact of tax and other legislation or regulations in the jurisdictions in which the Group and its affiliates operate. As a result, the Group's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set forth in the Group's forward-looking statements. Forward-looking statements in this press release are current only as of the date on which such statements are made. The Group undertakes no obligation to update any forward-looking statements, save in respect of any requirement under applicable law or regulation. Nothing in this press release shall be construed as a profit forecast.