# RSA

Full Year Results Presentation

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## RSA

**Stephen Hester, Group Chief Executive**

**Scott Egan, Group Chief Financial Officer**

## Questions From

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## *Introduction & Business Update*

**Stephen Hester, Group Chief Executive**
Good morning, everyone. Thank you for joining us. The format exactly as usual, I'll do a few slides, Scott will do a few slides, turnover to Q&A afterwards and, hopefully, most of you have a chance to look at things anyway when we publish them at seven, and then, obviously, during the day, we are available to answer any questions that you might have.

Again, as usual, scattered mostly here on the front are a number of my senior colleagues, some of whom you will have talked to on the way through, not least including Martin Scicluna, our Chairman, who is down here, who can describe to you how the Management Team are being underpaid and held back by good and strong corporate governance.

Laughter

So, with that, let's start.

The RSA story, in many respects, hasn't changed. We're trying to do exactly what we told you we would try to do, and most of the time we're managing to do it, although not absolutely every bit of the time. And our proposition, at its fundamentals, is here, as we've described to you before, where we've turned ourselves into a focused mid-cap. We think that's the best way to create value, but obviously we then have to do something with that structure.

Clearly, our progress is entirely about self-help, it's not about tailwinds from the markets, although, with a bit of a luck, we'll get some of those on interest rates before too long.

This last year some people think might have been the worst year for the insurance industry globally in loss terms, mainly, obviously, coming out of the US and Caribbean, and that's illustrated our resilience that we've absorbed some knocks this year and still produced some record profits and, of course, in the end, we hope, over time, it boils down to attractive earnings increases and attractive dividend increases. We've delivered on that in recent times, and we believe we can keep doing so.

The highlights of our 2017 Results, the strategy is where we wanted to be. We now have a balance sheet of where we wanted to be and, in that sense, in a financial sense, the restructuring of the Group is complete and we look forward to relatively clean financial statements going forward.

We believe that our outperformance continues. That outperformance is, of course, relative to our 300 years' of history in the first instance, but also increasingly relative to others, and I'm pleased to note, and we'll talk about this as we go through, that, one by one, we're overhauling competitive performances in our different markets, and that's obviously what we're setting out to do.

As we've mentioned, only just mind you, we've got record underwriting profits and combined ratio for ourselves at 94%. We talked about the earnings per share up 10. For those you who, and I know there are very few of you who are dividend hounds, but for the dividend hounds there's a 23% increase in dividends, measly, I accept, and a return on tangible equity in the upper half of our range.

The entire focus of this Management Team is towards an elusive goal, and that is to move our performance in each of our markets towards, and preferably to, best in class levels, which, of course, is a shifting target but, nevertheless, is, if you like, driving everything that we do, qualitatively, we hope that there then is a good financial expression out of that.

Scott will go through the numbers, obviously, in more detail later in the presentation, so I'm not really going to talk to this slide which touches on a few of them other than to say, in my part of the presentation, what I want to do is just take you through quickly the key levers that we said we would be pulling in order to deliver good numbers, and one of the key proof points for 2017 was could we stop shrinkage in our business? In other words, had we got to the point where we'd done enough restructuring and enough things for customers that we could start doing more business?

We're not trying to be a top-line story but, obviously, it's a health signal if customers are choosing to do more business with us rather than less, and clearly we have delivered on that ambition for 2017. It'll be the first year since our restructuring that we get customers doing more business with us.

We also, in additional to the customer lever, we'll talk about the underwriting lever which, as you know, has been an extremely important part of our story, and the cost lever, and I will go through, on a geographic basis, some of the good and the less good news from our geographic progress, but I think it all adds up to some things that leave us pretty happy with how the company is going forward.

The essence, the strategic statement, completely the same slide as we have presented for a few years. I regard that as a good thing. I think that there were those who, a few years' ago worried whether our customer franchises had the strength, the inherent quality to bear best in class performance. I hope, as each year goes by, that you're becoming more comfortable that these franchises have the ability to support best in class performance although, of course, we're not yet there in every market.

The essence of the strategy around our customer franchises is basically don't make mistakes and focus all your energy on the things that you're likely to do well. I think that you can see that approach showing up in our progress and, of course, because of that, everything we're trying to do is not flashes of strategic brilliance, everything we're trying to do is about operational delivery and building a track record that can be lasting in terms of excellence of operational delivery.

And, again, the balance of the company clearly hasn't materially changed, but it's worth, I think, continuing to dwell on this. We are, in some respects, an unusual beast because we are the most balanced of the focused companies. And I hope that, over time, you will see that we are focused enough to be delivering superior performance, but also we have a business balance that allows us to ride more easily some of the inevitable bumps that being an insurance company brings.

Those people who are exposed to international business have obviously had way bigger Nat Cat experiences than we have in the last year. Those people who are exposed to the Canadian Motorcycle have had more miserable experiences than we have this year, and so on. And so, we think that this business balance, but based on something that is focused enough for us to energetically manage it, is a strength.

And clearly the target profitability, while not being exactly what we produced this year, but our target profitability mix highlights, among other things, the enormous crown jewel in value terms that our Scandinavian position represents.

And the bit of this that is in your hands, the bit that is in our hands, is to take our regional leadership positions to put a performance focus on them and to create operational financial excellence. We hope we can do that more and more as each year goes, and the bit that is more in your hands is whether or not you assign a superior PE to that which we believe, over time, we will deserve.

So moving in then to the actions and, again, the levers that we're pulling are exactly the same levers that we've been pulling for each of the last three or four years, and we intend to pull in the coming years. It's about improvements for customers, improvements in underwriting capabilities, and improvements in cost efficiency. And, of course, right throughout that is a technology theme, because every one of those is driven by technology among other things, and every one of them is driven by culture and performance and the way the effectiveness that we can bring our management resources to bear on our business.

So talking of the first lever of customers, as I mentioned before, not something we're trying to drive. Huge growths, huge growths in our market seems to, more often, be associated with mistakes and slip-ups when you see the underwriting consequence of them, but we would like, nevertheless, customers to do more business with us except when there is a profitability barrier to doing that. And so we're pleased to see that, in 2017, the top line grew and volumes grew, albeit modestly.

The point that I would make beneath that here is that I would say we are a bit more advanced in getting the profitability of our Personal Lines businesses where we wanted than some of our Commercial Lines business, Scandinavia is a good example of this. And so, when there's a tension between still doing portfolio pruning and saying, no, we want to do more business because we're happy with the portfolio and the rates, at the moment, you'll see that tension more manifested in Commercial.

And so we take Scandinavia as an example, the Personal Lines businesses are really very, very strong in Scandinavia, we want to expand them. The Commercial Lines business, there still a little bit of surgery to do because the profit margins are quite a lot narrower than in Personal Lines. And so you'll see, if you like, our attitude to the challenge of volume versus value showing up a little bit underneath the covers in this picture.

But, nevertheless, we're getting closer and closer to the point where, across the board, we're happy with our portfolio and trying to move forward in a modest way with customer volumes, but, in particular, keeping customer satisfaction solid so that we can do work with the other levers.

And I won't go over this next slide, but simply to say, obviously, beneath the headlines of what we do with customers are many, many initiatives to try to modernise ourselves to try to improve how we serve customers, many of them involve technology. The UK is completely replacing its IT and technology and infrastructure backbone.

The first manifestation of that is our Nationwide partnership, and it will then roll over the next year, 18 months, through all of our other Personal Lines and then into Commercial Lines and the Claims platform will follow that. And, although we've been only been going two months now with Nationwide, we're really, really happy with how it's going. More importantly, they are really, really happy. I'm not sure that there are that many people that are getting NPSs over 65%, particularly in a period which normally would have teething problems when you start off a new relationship. So I think that's a good example.

In Scandinavia, we believe we’re amongst the leaders, if not leaders, in digital claims which, of course, will sweep the world over time as one of the ways that we can serve customers better and be more efficient. And one of the things that's really pleasing is our secret weapon in Canada, is our direct business, Johnson, by far our most profitable business, and that's now turning more into a weapon and beginning to expand its customers, and that’s on the back of capability improvements and digital.

The second big lever, of course, is underwriting, and there'll never be a moment when underwriting isn't our most important capability, both in terms of serving customers and bringing things to the bottom line. And, obviously, there will always be volatility in any underwriting line for an insurer, that's the nature, we're talking on the risks of our customers. However, we're delighted that the attritional loss ratio continues to make progress. At a Group level, it made no much progress in the year that's just passed, only small progress, although that masked big progress in every single business we had apart from the UK, and the UK, mainly around household escape of water, dampened that effect, but we're pretty happy with it.

There aren't that many companies in our industry that have improved attritional loss ratio four points in four years, and I think there's a bit to go yet over the next one to two years before we get to the point where we feel that we should use underwriting improvements to drive volume as opposed to volume and value as we're doing at the moment.

And, again, I won't go over the examples in any detail, but suffice to say there are two categories of things that we're doing to try to be better underwriters; there's what I'll call technology and data sophistication applied to risk models and throughout our business there's some really quite funky and clever stuff going on.  People think, as you know, that insurance is dull old-fashioned industry and, in some respects we are, but we're also, in other respects, at the cutting edge of many of the tools and data enrichment techniques that are driving a lot of excitement in Silicon Valley, and we're trying to harness that where we can.

But, in addition to cleverness, there's old-fashioned people judgement discipline with which those judgements are being exercised, and particularly, in 2017, when we've had poor large loss experience, we need to do a better job, even though, somewhat, lots of that is volatility.  And so you'll see the bottom two examples examples of where we're trying to bring more rigour and more discipline to our Commercial case underwriting in order to improve the odds in terms of large loss underwriting, and so that's more of a people than a data exercise.

The third lever is costs.  Absolutely fundamental for any modern business as we know and, again, I think we have every right to be delighted with how things are going.  Every lever you could conceive of is being pulled to make us a more productive company.

It's not in any way at the expense of investment, in fact we've been investing more than depreciation for the last two years, and I expect we will over the next two years as well.  But you can see the controllable cost ratio, which to remind you is broader underwriting expenses plus claims costs that would otherwise be in the loss ratio.  Again, that has come down 4.5 points in four years.  Very few companies have achieved that.  And, as you know, our ambition is to bring it down at least a couple more points over the next two or three years, and every single region has kicked in nicely.  Our star pupil at the moment is Canada which has already got itself beneath our 20% near term ambition.  By the way, I'm going to move that 15% once everyone's got to the 20%.

Scandinavia, even though they're doing fantastically overall, has got the biggest gap to close on expenses given the structure of that market, but I think this a big strength of our ongoing story.

I won't go through the examples, you can read them, you can see them and you will have all noticed that we have upgraded our cost saving target with the announcement today, although, frankly, we're more focused on the productivity ratios going forward than we are on the pound amount, but just to help give you some guidance.

So let me close by taking you through some of the regional performances and giving you some colour on where we think we are with the regions, and then, obviously, Scott will do more of the analytics in terms of numbers.

And starting with Scandinavia, I have to say we are delighted with the progress our Scandinavian business has made.  Of course it is, as I mentioned earlier on, conceptually the jewel in our crown.  We're the only serious, in scale, international insurer in Scandinavia.

It's got fantastic characteristics in market terms, in terms of stability, market discipline and the associated profitability and cash flow, which is why the public companies who compete against us are rated as they are, but they're rated as they are because they perform as they have done. And we can say that, in 2017, that is the first year possibly ever that we have got our performance level to the level of the best of our competitions in Scandinavia where, traditionally, it has trailed that. And so I think that a great tribute to the hard work of the teams.

It's fair to say that although that's been done on the back of very impressive cost improvements, very impressive attritional loss ratio improvements, we are not where we want to be in cost. We also think we can go further in attritional loss ratio, and we had better prior year development in Scandinavia last year than we normally plan on, not better than our competitors by the way, broadly in line with our competitors, but we would like to plan on less of that. And so, to make this sort of Scandinavian performance an everyday performance we still have more work to do but I think that we are optimistic that we can do that.

Clearly, the top line is important if you have this level of profitability, you'd like to do more of it, and that's why we're pleased to see that the, particularly the Personal Lines, has started to expand in volume terms and, amongst those, Sweden had the best expansion of our Personal Lines businesses geographically last year, and the start to the year has been also very pleasing in that regard from a Personal Lines, and particularly a Swedish Personal Lines, standpoint.

We do think we can go further in Scandinavia and, in geographic terms, probably Denmark is the place where there is the biggest performance opportunity for us. Our combined ratio in Denmark is high 80s, the best in Denmark, that's probably Trygg and Top, are somewhere in the sort of 84, 85, 83 depending on the year. So there's a few points that we can go for there, most of it, I think, will be cost driven a bit, attritional loss ratio driven.

Scandinavia, jewel in our crown, standalone value today must be well over, worth well over £4 of our share price just in Scandinavia's performance today.

Canada, also now just broken through our best in class performance barrier, I think possibly the first year on record that we have a combined ratio that's nudged slightly ahead of Intact, which I regard as the gold standard of Canadian performance. And I noticed yesterday, by comparison, Economical, one of the top five insurers in Canada with a combined ratio for the year of 118. So these things don't necessarily come easily, they are the reflection of lots of work. So we're really pleased with Canada.

You can see Canada has started to grow in all lines, the costs have come down very nicely, the attritional loss ratio is making good progress. We're relying less on prior year profits than we did. We want to rely still less on it. And we're very cognisant that Canada is probably the most naturally volatile of our territories, both in terms of the weather patterns in the country and in terms of the some of - like the regulated motor markets and the things that that can swing.

So we really - to absorb the volatility over time we really need to be hot, hot, hot on the other performance levers. So we think we have plenty more work to do in Canada to make this a sustainable level of performance and to improve on it, but we're encouraged by that. And again there must be the thick end of £1.50 of share price value in Canada as it stands today.

The third of our major regions is of course the UK and the international businesses that are booked through the UK and cluster around it. And as we warned earlier in the year you'll see that our performance there had been poor in underwriting terms.

Misery loves company, so of course you will have noticed that the UK units of Alliance, and of Zurich, and of AXA, if you add all three of them together have a combined ratio also over 100 for last year and they don't book the Nat Cats in their UK unit that we do. So we're not the only people to have not performed well, but nevertheless we haven't performed well and we need to put that right.

Scott will take you through in greater detail the principal four items that impacted our UK results and I think that you will see that there is good reason to believe that the majority of that impact was external events that either are not likely to repeat like an Ogden, or that will repeat rather frequently like the Nat Cats, or that we can take some action against and are taking action against in pricing and underwriting terms.

And so I would say that our belief that the UK can get to the best in class performance hurdle of better than 94 is intact, however, it is going to be slower than we wanted it to be. I don't think we'll get there in 2018, I'll be happy if in 2018 we got to the sort of territory that we were in 2016, but we do believe we can get there within the next two to three years and the team are working very hard to do it.

And beneath the surface of the underwriting results, you know, there is a lot of good stuff going on. I talked about the Nationwide and the Personal Lines platform behind that, you'll see good progress has been made on cost and productivity. Motor, which has been, you know, a pain for us in terms of our capabilities, is getting a lot better in terms of our capabilities in the Motor market. So there are quite a few decent things going on underneath the covers in our UK business.

And of course with over £3bn of premium, if we do get it performing as we want that should be worth at least £3 plus per share, it isn't today, so we have to get the performance to that level.

Hung off the UK and international businesses are our Irish and Middle Eastern businesses. And there you can see good progress. Of course Ireland has been difficult for us, you can see really good progress in expenses and attritional loss ratio has brought the combined ratio back to 96, 97, we think that that can be under 94 on a sustainable basis and that's our next target.

And the Middle East, although you could say in some respects we were reluctant owners of it, nevertheless it's kicking in very nicely, all-time record combined ratio of 88. Not much of that comes to the bottom line because there is a bunch of minorities, but nevertheless doing well and the folks out there are doing a good job in difficult economic circumstances.

When I take all of these together, it is - our Board often reminds me that we are foolhardy to stick out there some big ambitions, ambitions that we've never reached before, but I think that it is a good way of motivating ourselves to work harder and to be more focused. And so we continue to have our big ambitions of aiming towards best in class performance. And while there are many, many facets of that, a financial measure of it remains the combined ratio and the sorts of targets we have. And I remind you that those targets are better than, rather than equal to, and that's what we're working hard to deliver and to deliver on a sustainable basis. Scott, thank you.

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***Financial Review***

**Scott Egan, Group Chief Financial Officer**
So thanks Stephen, good morning everyone. As we turn to the financials I'm pleased to report that all of our key performance measures are once again showing improvement year on year.

An excellent set of results as Stephen said in Scandinavia and Canada have helped us withstand a tough year in our UK business. Our entire focus is on driving for outperformance across the Group and we remain confident of our plans, but as always we are not complacent about the hard work ahead.

As usual I'll start with an overview of the numbers before getting into the detail. Our focus on our three business levers of customer, underwriting and cost continues and in 2017 this translated into growing premiums, record underwriting profits and higher earnings per share and returns for shareholders.

At a headline level our Group net written premiums grew by 4%, this was 2%, excluding disposals and at constant exchange. Combined ratio of 94% was another RSA record, despite the UK result. And in Canada costs were down everywhere, while the net volatile items went against us this year.

Underlying profit before tax of £620m was up 12%, reflecting higher underwriting profit, lower interest charges, offset by lower investment income. Profit after tax was up significantly to £322m as non-operating charges feel and our underlying EPS was up 10% to 43.5 pence.

Our return on tangible equity was up again to 15.5% in the upper half of our 13 to 17% target range. And finally TNAV remained broadly constant with profit after tax offset by fair value mark to market movements, investments in intangible assets and dividends.

As usual I'll now go through some of the areas in a bit more detail starting with our premiums. And it's pleasing to report top line growth in the business. This was driven in large part by retention, which is up again to 80.2% and is now up just over a point since 2015.

Walking through the specifics of each region in turn, starting with Scandinavia and Personal Lines, premiums and policy counts were both up in 2017. New business grew by 11% in Sweden and in particularly PA policy counts grew by 3%.

In Denmark Codan Personal Lines returned to modest growth, helped by our customer service, for which we now have market leading satisfaction scores.

Commercial Lines volumes decreased, partly due to the portfolio actions in Denmark and the timing of projects in our Construction, Power and Engineering business.

Turning to Canada we're now reporting our fourth consecutive quarter of growth. In Personal Lines our direct brand Johnson returned to growth of 2%, with new business up 4% in 2017 and premium retention up by two points, to just over 90%.

In Personal Broker advances in pricing sophistication, aided by Radar Live, helped us to grow policy count by 4%. And in Commercial Lines we saw a three point increase in retention, helped by industry leading service levels, of which the best example is the same day service levels for SME new business, which reached an all-time high of 96% in December.

Turning to the UK, higher Personal Lines premiums reflected another strong performance in our Motor Telematics product. RSA is now one of the leaders in the young driver insurance market, with premiums doubling in 2017 and up over 250% since 2015. And it's also great to report, as Stephen said, that our important partnership with Nationwide went live in December and we are now quoting for both new business and renewals. But remember you'll only start to see these premiums materially in our numbers in 2018.

On Commercial Lines volumes were up 1% in a competitive market, more importantly we continue to hold our pricing discipline.

2018 has started well; you'll also remember that January is a really important month for us, with about 25% of the Scandinavian book renewing. And whilst it's only one month we're pleased overall with the renewal rates which were ahead of our plans.

Turning now to the underwriting result, the Group combined ratio of 94% improved again in 2017, the attritional loss ratio was better, although performance varied by region. Reductions of over 1.5 points in Scandinavia and a point in Canada reflected pricing actions and improvements in our underwriting capability.

In UK Motor and also in Ireland attritional loss ratios were around 6 points better. However, this good news was dampened by higher UK Household claims inflation which we've previously flagged.

The expense ratio improved by a further 0.6 points with every region contributing. And what we call the volatile items, weather, large and prior year development; we were just over 1 point adverse to 2016.

Looking at the headline combined ratios in each of our region, Scandinavia and Canada both produced excellent results and performed within our combined ratio ambitions for the year. That said there are areas in both regions which we can improve on further.

The UK and International region had a disappointing year; in addition to UK Household inflation we experienced higher large losses in Commercial Lends, notably in European Property.

Moving now to the loss ratio by region. In Scandinavia the loss ratio was nearly 3 points better than last year. I've already mentioned the strong progress and the attritional loss ratio where the biggest gains were in Swedish PA, Personal Motor and Household. Large losses were slightly higher in 2017 but in line with our five year average. While weather was benign in both years. Prior year development continued to be favourable and was higher than in 2016, this was widely spread across business lines and accident years.

In Canada the loss ratio was essentially unchanged, however the quality of earnings improved as current year profits rose while prior year development was lower than 2016. The improvement in the attritional loss ratio came mainly from Broker, Personal, Motor and Commercial lines. Weather was better than in 2016 but you'll remember that the Alberta wildfires cost us £42m. And finally large losses were 1.3 points higher in 2017 primarily in Commercial Property.

The UK and International loss ratio increased by just over 3 points in 2017 and I'll talk to the UK performance in a bit more detail in a couple of slides.

Ireland's loss ratio improved by nearly 20 points in 2017, prior year development was neutral and the attritional loss ratio was only 6 points better, driven by extensive pricing and underwriting action. We are pleased with Ireland's return to profit but would just caution as we did last year that we'd like to see another year of development in the data.

In the Middle East loss ratio improved by almost 9 points, the attritional loss ratio improved here too, this time by around 4.5 points.

One final comment on the topic of loss ratios before I move on, our discrete second half attritional loss ratio presents higher than the first half. This is driven by the UK where just over 1 point of the discrete second half ratio actually relates to the adverse development of losses incurred in the first half, this would be around half a point at a Group level.

Turning very briefly to the volatile items. Weather was neutral year on year, domestic weather was benign in all regions, however, Nat Cat losses post reinsurance recoveries fully offset this. Large losses were 1.7 points higher than last year and were also above the five year average of 9%; UK Commercial Property was most affected. And favourable higher year development was higher than 2016 and widely spread across businesses and accident years.

We continue to plan on lower levels of prior year development going forward, although of course we're more than happy when that proves conservative as it has in the most recent years.

Turning to costs, we continue to make excellent progress, reducing costs by a further 8% in 2017 gross of inflation. We've now achieved around £395m of cost savings since the end of 2013 on a like for like basis this represents a gross cost reduction of 23%. And as you've heard from Stephen we've upgraded our cost target again today to greater than £450m savings by 2019. And we're also pleased to note that the cost to achieve these savings has fallen to around 1.3 times lower than the 1.5 times originally projected. Any future cost to achieve cost savings will be booked above the line as part of our business as usual.

The improvement in our controllable expense ratio over the last four years has been significant falling to 21.5% in 2017. As you know our ambitions to get the earned controllable ratio below 20% in all regions and as top line growth returns the ratio becomes more important than the absolute level of costs. Continuing to improve productivity year on year is our goal.

Turning back now to UK performance I'll spend a few minutes unpacking the result in a bit more detail. As I've said 2017 was a disappointing and unlucky year for the UK business. I want to cover three topics here, one - Household Claims inflations, two - elevated large losses and three - the Nat Cat events.

I'll start with the higher Household Claim inflation which has been widely reported across the market and was mainly driven by escape of water. Inflation in materials, labour and alternative accommodation was a factor along with changes in home design such as more bathrooms, wet rooms etc. We are tackling this in two ways, firstly we are increasing prices, rate by channel was up between plus 4 and plus 9 in 2017. And we delivered more rate in the second half of the year than the first, important for 2018.

Secondly, we're also improving our claims management process from initial assessment to case resolution. Reducing the cost of escaping water claims is all about speed and our KPIs are now reporting encouraging progress. For example drying times are down around 40%, repair time is down by around 15%. These in turn are contributing to a 30% reduction in the time spent in alterative accommodation by our claimants.

These actions are already well underway and based on what we know so far are having the desired effect. But we'll have more confidence with another six months experience under our belt. And as a reminder the actions will take time to be fully earned into our P&L performance.

Moving on to the second topic of large losses. The chart on the left shows that the UK large loss ratio was 3.4 points higher than the five year average. As Stephen mentioned we have a process to independently review all losses over £1m and we found that most risks were well underwritten. We also satisfied ourselves that the claims were not rising disproportionately from policies recently underwritten and therefore our 2017 experience points more to volatility than the start of a new trend.

That said there'll always be things we can do better from an underwriting point of view and we've taken some significant but targeted actions such as tightening policy wordings, increasing rate or exiting certain risks. We've also brought down more reinsurance cover in the UK and renewed the good aggregate cover which has served us well in the last three years.

We've discussed weather already so I won't dwell on it for long but despite record weather events in 2017 for the market, RSA's weather ratio was flat year on year for both the group and the UK. This reflected our reinsurance protection and was also helped by benign domestic weather.

And as a reminder about 25% of our UK premiums are international business written through the London market and our branches in France, Spain and Benelux, typically in Property and Marine. We present this business and our UK underwriting results unlike some of our peers; it has been profitable over the medium term but given the international nature of the exposures we do expect to incur higher Nat Cat losses from time to time.

Turning now to investment. Our strategy remains unchanged; this means a portfolio dominated by high quality fixed income with around 90% of our bonds A rated or above. Our investment income of £331m was lower than 2016 primarily due to the impact of the Latin America and UK legacy disposals but also impacted by the ongoing reinvestment at lower yields.

The average reinvestment on the bond portfolio during the year was 1.4% and the average income yield was 2.5%. Based on current forward yields and FX we're pleased to forecast the first benefits from the tightening rate cycle that at long last seems to be underway. We are forecasting investment income in the range £285m to £310m in 2018, up around 8% on the projections that we made a year ago. 2019 and 2020 are also included in the slide for your information.

Unrealised gains on the AFS portfolio decreased by just over £200m in 2017 to £428m at the end of the year, of which around £400m relates to bonds. We expect the pull to par element to largely unwind over the next three years with a capital impact of less than £100m in 2018, falling sharply in 2019 and 2020.

The remainder of the unrealised gains doesn't impact our capital in the same way as the impact is broadly offset by a corresponding decrease in our technical provisions under Solvency II. And as a reminder an improving yield environment which has become a more important assumption as forward yields increase doesn't just benefit us from an investment income perspective, it should also help our pension scheme valuation. Further movements would also accelerate the bond pull to par effect, the risk being of course higher inflation which we must stay alert to.

Moving on now to non-operating items. Below the operating result, interest costs of £43m halved following the debt restructuring actions taken over the last 12 months. We also incurred interest costs of £11m on the new Tier 1 notes we issued in the first half of 2017 shown in other equity costs.

Other non-operating items were largely as per our previous guidance. The most significant of them was a £66m net gain on the transfer of legacy assets and a £59m charge for debt restructuring.

We also saw £155m of restructuring costs which while higher than originally planned are a key enabler of our upgraded cost savings target. And as mentioned earlier 2017 is planned to be the last year of these below the line restructuring charges.

The tax charge was £126m with an effective tax rate of 28%. This largely comprised of tax and overseas profits but was elevated by a one off charge in Canada driven by internal debt restructuring that will help our tax rate going forward. The underlying tax rate was around 22% and given the scale of unrecognised UK tax assets we expect both the underlying and effective tax rates to trend down towards 20% over the next couple of years.

Turning now to capital. Our capital position remains strong with a Solvency II coverage ratio of 163% up 5 points since 2016 year end. It sits just above the top of our target range of 130 to 160% and a reminder we prefer to operate at the top end of this range.

On the left hand chart we've split the generation and uses of capital into recurring and non-recurring items which you might find helpful. On the recurring side three items, dominate, capital generation, bond pull to par and dividends. On the non-recurring side you're familiar with the UK legacy disposal, our debt refinancing actions and restructuring costs.

And finally you can see that our capital quality has improved with a Core Tier 1 coverage increasing by 12 points to 98%. This is important because as you know we regard Tier 3 capital category as lower quality.

Moving now on to the dividend. We have announced today a proposed final divided on 13p which gives a total dividend for 2017 of 19.6p, up 23% from 2016. This represents a 45% pay out of underlying earnings up from 41% in 2016.

Turning now to dividend outlook, given that we've completed the balance sheet restructuring and the restructuring change programme in 2017, I thought it might be helpful to share our thoughts on distributable earnings as we go forward from here. We expect gross capital generation to track headline EPS quite closely.

Our organic business needs come first, in any one year we're likely to retain around 25 to 30% of our earnings to fund things like organic growth, net capex spend and pensions. This helps ensure that we don't dilute capital metrics or capital quality. This leaves approximately 70% of our earnings in most years available for distribution or other uses. From here as per our guidance we continue to plan for a base dividend pay-out of between 40 and 50%. This leaves a variable amount show in the middle of the chart which represents about 20 to 35% of earnings; this amount is available for additional shareholder distributions to fund the pull to par impact and for any other need. And as described the pull to par drag is expected to be under £100m in 2018 and to fall sharply thereafter.

Of course all of the above is caveated under the banner of performance first. In any given year distributions will be a factor of the performance of the business including the more volatile in terms of weather, large and prior year development as well as financial market movements which can impact both the quantum and the quality of our capital.

And finally turning to outlook, we hope to build on the positive top line trends of 2017, albeit always prioritising disciplined underwriting. We're continuing to drive underwriting performance across the Group towards best in class. Scandinavia and Canada delivered excellent results in 2017 but as I've said before we've still plenty of ideas to improve from hereon in.

While the UK and International had a tough year, our performance ambition remains unchanged and we're focussed on the actions needed to get the business back on track. Cost efficiency will always be a priority; we're pushing ahead with the actions to deliver a higher savings target and to drive the earned controllable expense issue towards our ambition of lower than 20% in every region. And with lower interest costs, no more restructuring charges and a lower tax rate we expect operating profit to fall more efficiently to the bottom line going forward. With that I'll hand back to Stephen.

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**Stephen Hester, Group Chief Executive**
Thank you very much Scott. That's what we had to say, let's go to Q&A and start at the front.

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***Questions and Answers***

**Arjan van Veen, UBS**
Thank you. Your slide 39 on dividends, very helpful, thank you. A couple of questions on that if I may. Firstly so your base pay-out ratio 40 to 50, you're 45 now, you highlight 20 to 35 which is a big part of it this year, gets take up by the pull to par but you highlighted that decreases quite quickly in 2019. So the question is really then if I look at 2019 what would stop you lifting the pay-out ratio, you highlight any other need in there and whether anything operationally, you touched a little bit before, would stop you - be it large claims, etc?

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**Stephen Hester, Group Chief Executive**
I would say that there's nothing we know now that wouldn't make all of that money available for distribution less the pull to par element in that middle category. And our only nervousness comes from you know you don't know what you don't know. And as

Scott mentioned the Solvency II models can have volatility from market moves, maybe the regulators associated with Brexit decide they want to calculate Solvency II a different way and so on. So there's those kinds of caveats.

And there's also I suppose if we made an acquisition you know that might be a use of capital, acquisitions remain rather low on our priority list so I'm not flagging that with a particular reason. But we will continue to be frustratingly stubborn that performance comes first, performance has got to lead to strong capital generation. But then we have a large sensitivity to the fact that our investors would like to see as much of that as possible in dividends and we would like to deliver that. But there's a priority order and we're going to stick to that.

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**Arjan van Veen, UBS**
On special dividends do we think that in this framework or given you're 163 above the top end of your target is special dividends, do you consider those year by year over and above this guidance?

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**Stephen Hester, Group Chief Executive**
So I think that what we've indicated is that we do see scope for increased earnings which of itself would increase dividend potential and we see scope in addition to increased earnings, increasing dividends for increased total distribution to pay outs so we see scope for both.

We are at the moment entirely agnostic as to how to characterise additional distributions whether specials or whether buy backs, that's not something we have a fixed position on. But we do see the potential to increase our distribution in total but more in addition to the earnings increases.

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**Arjan van Veen, UBS**
Sorry if I can add one last question on Canadian Motor. Your outlook statement is a bit guarded there. And as you highlight you're performing better than one of your large peers and your larger peers are commenting on the price increase, particularly Ontario Motor are lagging a bit in terms of coming through the P&L so they expected some improvement next year. So just curious how we should think about profitability this year on that versus next year and then what's happened price wise?

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**Stephen Hester, Group Chief Executive**
To be honest I am nervous about Canada, not our Canadian business, I think our Canadian business is in great shape but it's just a volatile place as I've said earlier on. And last year it was volatile because of the wild fires, this year most people have had

really bad Motor results. I want to say our Motor combined ratio was something like 99 so it's actually a lot better than the market which will be in negative but still not great, it's still a drag and so these things move around.

Now the good news is the whole market is putting through lots of rate in Motor, we've put through rate; we've got a bunch of filings in to put through more. So our plan is that actually our Motor combined ratio was better in 2018 than in 2019 and competitor price rises should help us support our price rises without volume give up.

So I'm not trying to flag up anything specific other than just saying if there was an area for the Canadian industry that at the moment is miserable in profitability terms, it's the Motor area.

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**Unidentified Analyst**
Thank you. You talked about inflation and rate increases in the UK. Can you talk about the impact on volumes, what do you expect for volumes this year in the UK overall?

And the second question is on pensions, when can we expect a result, what can you talk about the timing of the triennial review and when we can expect the results of that, I think it's early 2019 but I'm not sure? And also what your current view is on the pension contribution? Thank you.

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**Stephen Hester, Group Chief Executive**
I'll answer your second one and then ask Steve to stand up and give you a point of view on the pluses and minuses around volumes. On the pension I mean it's in a sense the timetable is not really under our control because the trustees and the trustees' advisors produced a valuation and they decide how quickly they want to engage with us. But if it's a pattern we'd expect I would think we'd get into serious discussions with them end of third quarter, early fourth quarter. So I would think some time around September they'll start giving us an ask and then there will be an amount of arm wrestling. And then our ambition would be that round about the time of our 2018 results that we would have the answer, which obviously then neatly goes with dividend decisions and other types of decisions so it would be nice to have all of those coming together.

I think as we look at it today going against us relative to last time is that real interest rates have come down. On the other hand they're going up again so hopefully the direction is positive on that but it hasn't been realised last time. Mortality is coming our way so that helps, as to how well that balances I don't know but we're not anticipating any dramas out of the pension review but there may be some changes. But at the moment that doesn't feel like it's going to be a massive drama but let's see when we see it. Now Steve do you want to talk about …

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**Steve Lewis, Chief Executive, UK & International**
Now before I drop into the specific of the detailed questions, I think there will be a few other questions that might come in my direction. Let me just put my foot on the ball and just give you some reflections first on the UK result.

So as Stephen and Scott alluded to, a disappointing UK result particularly off the back of a strong 2016 result. However, I would say in large part, it is the business that we're in, I'd also say as alluded to there's an element of being unlucky and there's a material element of volatility. If I stand back from the overall UK business from a portfolio shape perspective I'm very comfortable with the shape of the book that we have in the UK in terms of Personal, Commercial, Corporate specialities. I'd also say we've got the right technical and underwriting disciplines in place in the UK.

So just a reflection on the four issues that impacting our result. No question household is an industry wide issue; we are taking the necessary pricing and claims actions. The other three, Ogden, Home large losses and also Nat Cat, I would put more in the exceptional bucket, I don't consider those to be materially run rate issues for the UK.

Having said that no complacency, we have reviewed every single large loss in the UK and we do that every year, that's a standard part of what we do as a business. And every year we find things to tighten, improve underwriting discipline and we find some losses where we go, do you really want that on our books and we case underwrite it out. And that's no different in 2017 to what we saw previously but it isn't the material reason for the result of 2017.

So my view is there's no reason why we shouldn't bounce back in 2018 and continue the trajectory that we've been on. So that a bit of context in terms of the UK result.

To discuss the specific question around rate and volume, I suppose it goes hand in hand with underwriting discipline. Our primary focus is carry a required price to return the business to the required profitability that we're aspiring for. I think the only material volume aspect that we're targeting in 2017 is our Nationwide partnership where we're bringing on board around about £180m of new premium from Nationwide in 2017 which is broadly a million new customers joining RSA.

Of the balance of the book, we are more focused on carrying the required price than we are in terms of volume and so I would anticipate our commercial and personal business to be broadly volume neutral to slightly down relative to carrying price across the portfolio.

And to just give you a sense of the momentum that we've got in the business H1 we carried around about 2 to 3 points of rate across the overall UK. As we moved into the second half of 2017 that moved to more like 5, as we moved through into January and February we're running at more like 7 in the aggregate. And that is the same across almost all lines of business. So we're carrying the required momentum into the business. If we have to trade volume to continue to carry that price we will do so, so hopefully that gives you a bit of a sense.

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**Stephen Hester, Group Chief Executive**
Thank you Steve very much. To add to that if we look at the first two months of the year our Commercial Line where we've got a 1-1 without international business which is a bit bigger, Commercial Lines has some growth on last year. A bit of volume growth and some rate growth, Personal Lines has got good rate growth but volume contraction reflecting some of that rate growth. And I also mentioned that we will be reducing some scheme participation on the Commercial Lines as an underwriting action, I mentioned that three months ago so that will impact the results.

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**Dhruv Gahlaut, HSBC**
Three questions. Firstly on quality of capital as in that's gone up to 98%, is there a target range that you would be looking at to building that number on Core Tier 1 coverage?

Secondly if I go to the investment portfolio you talked about 1.4% as the average yield you were having last year, could you say what that number is at the end of last year in December or in January?

And thirdly going back to Steve on the Home Business, is it possible to know what the level of claim inflation is currently and how does that compare with the price at this point?

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**Stephen Hester, Group Chief Executive**
I'll ask Steve and Scott to take the second two and I'll take the first one. Do you want to talk about Home claims?

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**Steve Lewis, Chief Executive, UK & International**
So I think in Home claims and this is industry available so that's if you look at it through the sort of ABI lines, we're seeing inflation generally around about 8 to 9%. On the escape of water peril, I mean clearly escape of water is the largest peril in the household book; it represents around about 25% in terms of volume but is more like 35 to 40% in terms of incurred value.

We are seeing inflation across all the other perils as well to a lesser degree but you're looking at that sort of 8 to 9 %. It's a moderated position. And if you look at it the context of Household pricing in the market, I mean if you were looking at Q1 last year the preceding three years we saw significant softening in the Household market in the UK.

If you look at it from a new business pricing perspective, prices ticked up almost a point every single month throughout last year in a new business position. And so by the end of around end of December it was running at around about 10 points. Clearly that gets moderated in terms of back book versus front book pricing on average premiums in the UK market. Ourselves, we achieved about 3 in H1, we achieved 6 on our own book in aggregate in H2 and as we are running through January and February we're running at about 9 at aggregate. And again to the extent we need to, we will trade some of the retention to carry that price in the market.

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**Stephen Hester, Group Chief Executive**
Reinvestment yields Scott.

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**Scott Egan, Group Chief Financial Officer**
I mean not materially different Dhruv; it's probably the right side of the 1.5 so 1.5 to 1.6 would be what we'd be experiencing towards the end of the year and beginning. But I mean look these things can be subjective depending on the mix of assets that you're investing in at that point in time. But certainly I think the question you're really asking is directionally are we beginning to see the trend up, and the answer is slowly and gradually yes.

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**Stephen Hester, Group Chief Executive**
On your point on quarter one I'm going to slightly broaden it to try and be helpful to you. We on one level have no interest at all in our Solvency II ratios. What we care about is our credit status because that's what we're selling to our customers in the end, the promise to pay their claims. And so we want to stay a strong single A which we are.

And so therefore capital is one element of that but there are lots of other elements around balance sheet, around margins, around customer franchise and so on. Rating agencies we look at, we obviously look at the regulatory capital and then we look at what I'll call the you know the sort of simple ratios like how much actual tangible equity do we have for the volume of business that we're doing. And so our capital judgements are based on around rather than on a mathematical ratio.

And I've had lots of experience of this in the banking industry and I also recall one of the things that got RSA into capital trouble in the beginning of the decade was that people were just looking at a model and ignoring the fact that that model was - you have less and less capital for the substance of businesses above you, and at one point it broke with very poor consequences.

And so for all of those reasons I think that it is likely that our Core Tier 1 ratio will continue to rise because as our business volume rises the amount of capital that we need to have for rating agencies and the amount of capital that we want to have for our simple ratio net tangible assets to premium will probably rise faster than the Solvency II model requirements which gives a lot of diversification.

And that's why our guidance is for retaining 25% to 30% of our earnings which probably means that in that retention is an implied increase in Core Tier 1 in a normal year, but it comes about for that reason, not because we have a Core Tier 1 capital target but because we're looking not just at Solvency II but at rating models and at net tangible assets to premiums and balancing the three of them. So the guidance is designed to make a complex picture slightly simpler and that's how you get there.

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**Andrew Crean, Autonomous Research**
Good morning. Three questions. Could you put some pounds million amounts around the escape of water and large claim issue in the UK, I think it was about 40 million each?

Secondly you said you'd have a look at the Irish situation or reserves I think at the half year you'd have a better view. Is that you sort of saying that there may be some redundancy but you're not yet prepared to bank it?

And then thirdly could you talk a bit about your reinsurance renewals 1/1, particularly the aggregate cover, Ogden and generally other pricing?

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**Stephen Hester, Group Chief Executive**
Irish reserves, no redundancy. In fact if anything we're - I mean I do think over time the book in Ireland will be normal and there'll be some positive PYD but I don't think you'll have a big PYD bonus. And if anything, as Scott was mentioning, we still want to see a couple more years before we're entirely confident with the current reserves as we see run off of the long tails. So we're not flagging anything particularly to worry about or anything particularly that's going to help us in that respect.

In terms of escape of water, order of magnitude £40m, £50m last year, that sort of order, i.e. about ten points on the loss ratio. In terms of large losses -

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**Scott Egan, Group Chief Financial Officer**
Three points is about £100m.

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**Stephen Hester, Group Chief Executive**
About £100m was the volatility off trend, in other words -

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**Andrew Crean, Autonomous Research**
Is that including the US?

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**Stephen Hester, Group Chief Executive**
No that doesn't because the Nat Cat appears in weather. So we were three points off trend and if you apply three points to £3bn of premiums then you get to roughly £100m in terms of relative to trend. I can't remember your other questions but Scott you might.

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**Scott Egan, Group Chief Financial Officer**
It was on the reinsurance which is just I think you were asking questions on the agg cover and some of the specifics. I mean we saw Motor reinsurance rates harden obviously on the back of Ogden; I think everyone in the market saw that. We got our agg cover away which we were pleased with, you know the attachment point has increased from just over 150 to around 170. The main reason for that is FX driven and a bit of exposure as Nationwide comes on the book. But I think in aggregate the area that we saw the most pricing pressure in reinsurance was Motor linked to Ogden.

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**Andrew Crean, Autonomous Research**
Retail ... ?

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**Scott Egan, Group Chief Financial Officer**
It varied Andrew to be honest. I think on the Motor you would say what, between 5 and 10 on the Motor. On the rest I think it varied by cover but not hugely significant.

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**Stephen Hester, Group Chief Executive**
And I think the only other relevant point is in terms of our Motor reinsurance we've bought down from three to one.

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**Scott Egan, Group Chief Financial Officer**
Yeah sorry that's a good point. We've bought the cover - as I referenced about buying down cover in the UK, on our Motor we took our retention from £3m to £1m on individual claims, in other words bought down and protected the volatility.

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**Stephen Hester, Group Chief Executive**
And just so you understand the thinking because we've been - A, we thought it was good value but because we so substantially expanded our telematics book which conceptually could have more large loss volatility although it's been performing well, we thought that was a sensible strategic move relative to having a more young driver weighted Motor book and that was what drove that. And what it does in effect is switch about £20m from the large loss line into the reinsurance line in a normal year.

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**Question - Andy**
Hi thanks very much. The first question is you quoted some sort of share price valuations for each of the business units. I'm pretty sure if someone came up with £3 a share for the UK you'd snatch both their arms off. But does this mean you would consider bids for bits of the business as part of the strategy going forward?

And I guess the second question is on sort of - the bit that surprised me about Scandinavia was the difference in performance between Sweden and Denmark. I mean I can see that the Scandinavian region has had kind of a pretty benign winter last year in terms of temperatures and stuff, but what's the main reason for the difference in performance between those two business units given that they are kind of run by the same management team?

And the final bit is on growth, and I think you highlighted growth in Johnson nationwide, but I guess I'm struggling with the idea that the premiums were growing at sort of 2% constant currency but the dividend is growing at 23. At some point the top line or something has to grow to get to the same pace if you want to keep on growing the dividend so how far are you away from growing the business at these combined ratios you're achieving now? Thank you.

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**Stephen Hester, Group Chief Executive**
Terrific, well thank you very much for those questions Andy. In terms of the company strategy our strategy is completely unchanged. We think that the best way to create long term value for the company is doing exactly what we're doing. If we get approaches for the whole or the part we will behave professionally as I think we have demonstrated. I think that there are - there is nothing to talk about in either respect today or nor has there been.

It remains value destructive in terms of capital diversification and in terms of the pension trustees to break up the Group. So you would have to have something extraordinary to make you do it and so therefore the best way for us to realise the inherent value of our business is to keep producing, and we think if you keep producing and if you retire the share price will rise over time. So that was your first point.

In terms of the second point on Scandinavia I guess when you look at every one of our Scandinavian competitors, and this isn't surprising, in Scandinavia it's easier because you can point to countries, if you looked in other countries you'd have different regional strengths. And every one of the big top five Scandi insurers has got some countries they make a tonne of money in and some they make less. So Trygg as an example makes virtually no money in Sweden and makes a lot of money in Norway and Denmark and so on as you go through. And so everyone has their relative regional strengths and our traditional strength, our strongest market share, and our greatest profitability has always been in Sweden. And so in that sense it's simply a continuation of what we've always seen.

That said the position was exaggerated in 2017 because Sweden produced more PYD than it would normally do. And so I think the Swedish run rate is lower than you would see normally, the core is lower than you would see normally. Although as I said when we take Scandinavia as a whole our ambition is to sustain the best in class cores but to do it with less PYD and lower costs broadly.

And in Denmark our biggest issue is our cost base has been uncompetitive and it's a lot more competitive than it was but it's still four to five points off a Trygg or a top Denmark. And our people productivity is much lower and some of that is about technology and it takes a number of years, but I would say that the key lever we have to keep pulling in Denmark to get the Danish contribution - I don't think it will ever get to the Swedish level because our market share isn't the same and we're also bigger in Commercial Lines in Denmark and we're bigger in Personal Lines in Sweden. So there's some things that will never get there but I think that will be the key behind it.

And then your last question about growth. You know it's interesting, the highest rated what I'll call mainstream P&C players of course are the ones, and the most consistent performers and the most valued in the market, are our Scandinavian peers. And their average organic growth rate including price last year was 1.5% and yet the average PE is 16 to 17 and the dividend yield you're well aware of and indeed the combined ratios you're well aware. And the relative lack of volatility in the market which is supporting all of those things. Fact one.

Fact two, when you look at the history of insurers that have gone on spurts of growth it often, not always but often, ends in tears from an underwriting standpoint. And so using those as illustrations it has been our strategy from the outset from 2014 and I've said it every single year and will continue to be, that we would much rather look like our Scandinavian peers, very disciplined in top line, very disciplined in costs and profitability, very capital and cash generative. We'd much rather look like that than go for the excitement of top line growth that fails to deliver for shareholders.

So that's our preferred model and that's our management philosophy and so we do expect the top line - while we expect it to be better than it has been in recent years and we think it can strengthen above the growth levels of 2017, we are never going to want to use that as a tool. So what you're absolutely right about is that 23% dividend growth you cannot compound out for the next 20 years.

*Laughter*

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**Oliver Steel, Deutsche Bank**
Couple of questions on the pension fund again. So you changed your mortality assumptions, how much did that add to the solvency ratio? I see you call it a recurring item, so is it recurring?

Secondly, within your payout ratio guidance, I mean I think you answered to the earlier question on the pension fund that you didn't expect much change, i.e. £65m a year of -

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**Stephen Hester, Group Chief Executive**
Expect a drama.

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**Oliver Steel, Deutsche Bank**
Okay, no drama. I'm not quite sure what that means in that context but -

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**Stephen Hester, Group Chief Executive**
Drama is sort of the bigger version of much change.

*Laughter*

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**Oliver Steel, Deutsche Bank**
Where does the annual funding cost come within your three payout ratio ranges on slide 39?

And then actually can I just follow up on Andrew's question, what's the cost to renew the ADC?

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**Stephen Hester, Group Chief Executive**
So I'll ask Scott in a second on the mortality because he also might want to unpick spreads and General Electric and boring things like that.

In terms of the cost to renew, the cost to renew is the same on our GVC but the attachment point is slightly higher. It was 150 and it's now 170. It's not exactly that but in round numbers. And that's mainly because the business is larger. So it's not that we're being charged more, it's because the risks that are being insured, not least the Nationwide £200m because UK flood risk is one of the big risks that can bite under that.

So we think like for like the pricing is the same but the attachment point is a bit higher and the premiums are the same.

And in terms of some of the volatility - some of the pension contributions, at the moment pension contributions don't cost any Solvency II capital because our funds are not - until your funds are in surplus equal to the Solvency II risk charge it doesn't count as capital. So you put money in the pension, your net tangible assets go up and you get a full credit for that in your calculation. Once your surplus gets bigger than the Solvency II risk charge then the capital becomes ineligible, you can't count it so then it would count as a capital usage. Although it would be dampening your exposure to pensions so you wouldn't see it in the Solvency II but we would see it in our sensitivities and count it if I can put it that way. So in that sense it might be that pension contributions have no impact at all on the Solvency II ratio, but it's a good example of why a mathematical computer driven Solvency II ratio of saying how much capital do we have to distribute is not the right way to look at it. We have to look at some of the richness of what's happening underneath the covers.

Scott do you want to talk -?

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**Scott Egan, Group Chief Financial Officer**
Yeah so specifically on mortality circa £130m was the benefit from updating to the 2016 CMI tables which is what you were asking. Obviously we had the contributions which Stephen has just been talking about that we paid in. The thing I'd say and I'd remind everyone is obviously under a Solvency II lens the basis in which we discount our pension liabilities does move around and can be volatile. And the thing that Stephen was talking about in regards to General Electric is we use the iBoxx index as a discount rate. And what happened when GE as an example this year fell out - they were downgraded and fell out of that index because of the weighting of their proportion of that index and the yield that they had, that had an impact if you like. For no reason, nothing changed, no risk profile changed and we can enter a debate as to discount rates and pension liabilities etc. etc. under Solvency II but it is what it is. So to some extent you can have things go for you like mortality and then you can have noise caused by index movements etc. etc. And we're looking and always as are others to see if we can create a better universe within an index so that we reduce some of that volatility.

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**Stephen Hester, Group Chief Executive**
Just your point on the labelling of the chart on recurring, what we meant was that market moves are recurring items. They happened to positive in the aggregate in that year; in another year they might be negative. But every year there will be some market moves that have a Solvency II capital ratio and so that's what we meant by categorising as recurring rather than a particular item with a particular value would be recurring.

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**Fahad Changazi, Mediobanca**
Good morning. Could I just ask on Scandinavia, thank you for all the colour you give, some moving parts in Denmark and so on, but when you say best in class combined ratio less than 85% you are helped by Sweden, would you be looking to do best in class in Denmark or looking to get more in line with peers? You are top three.

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**Stephen Hester, Group Chief Executive**
Personally yes but whether it's in the next couple of years we can have room to doubt. Personally our business in Denmark has got 11%, 12% market share, we're the third biggest insurer in Denmark, I don't see why we can't, given enough time, get our cost base to where the other scale players are. And therefore that should get us to that sort of territory. But it's harder work.

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**Fahad Changazi, Mediobanca**
And then just also on Canada just very quickly. I treat it as a joke but your controllable expense ratio 18% something. How are you going to get a new target on just Canada?

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**Stephen Hester, Group Chief Executive**
Are we going to - well as I said whenever anyone beats 20 I'm giving them 15 as the next stop which slightly removes the incentive to get to 20 I suppose you could say.

Laughter

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**Dominic O'Mahony, Exane BNP Paribas**
So three questions. One just a quick follow up to Oliver's question on the pension scheme contributions and solvency. As you explained very helpfully there's sort of a cap that you reach at which point you'd lose degeneration. As I understand though the cap applies by scheme, are you close to the cap by scheme at all or actually are you quite a long way with the present level of contribution set about 65?

The second question just a clarification on the excess for loss pricing for Motor. You mentioned 5% to 10%, is that global or UK specific? I just want to check whether that is the UK's. Thank you.

And then the last question on Ogden, are you still reserving at 0.75? Some people I think are looking at changing that. And what's the magnitude of reserve releases that you've seen from the - the re-reserving from the Ogden rate earlier in the year? Thank you.

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**Scott Egan, Group Chief Financial Officer**
So if we start with the Ogden the answer is yes we are still maintaining our change that we made at the beginning of the year. I think what we did flag at the beginning of the year is we - our expectation was that cases would settle inside that and that's exactly what we've seen this year. So we've seen case estimates settle between kind of 0 and 1%. And no great surprise given - yeah positive, not negative yeah. So cases are settling inside reserve.

And on pensions you're right; you know the schemes are different. One scheme is close, the other scheme isn't. So they just move in different ways.

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**Barrie Cornes, Panmure Gordon**
I've got a couple of questions, first one I think for Scott, in terms of the retention. You talked in your presentation about buying increased reinsurance. You talked about Motor lowered, what other classes of lowered, I'm particularly interested in UK weather or what their net retention would be going forward?

Second question going back to Andy's, slightly cheeky. You've indicated an £8.50 share price if I added up correctly. Your shares are trading 25%, 30% below. Should we be thinking about share buybacks or are we going to see direct to dealings in terms of piling in and buying shares? So that's the second one.

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**Stephen Hester, Group Chief Executive**
I mean on your second one I think that it is completely legitimate when you have a company with RSA's frankly chequered history if you go back 20 years or so, that investors should want to see things proven, and also to believe that they're not flashes in the pan, it's not just oh gosh there's been some clever short term squeezing and it disappears the next time. And so the onus is on us to put together a track record that A, is of high performance, and B, people can have confidence is sustainable.

Obviously to the extent we do that the other element of the ingredient behind the track record for our peer group is dividend yield and so that follows the sustainable track record. And so I think it is the case if you look at our share price although this is your territory and not mine, historic PE ratios are not unfair. Prospective ones, if we deliver, are cheap. But we recognise that when this equation starts with us being able to deliver both quality of earnings, quantity of earnings, and then hopefully in the light of those two dividend flows and I have confidence in the assembled analytical power to give us a fair answer to that, but we understand the onus is on us to deliver the substance and then it's over to you to think about what that's worth.

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**Scott Egan, Group Chief Financial Officer**

Just reinsurance, let me just say a couple of points. Overall structure we're really happy with in terms of reinsurance. The Motor point we've already answered. And just a reminder on whether in the UK it's a £75m event cover yeah, they take the first £75m then reinsurance kicks in. And obviously we've talked about the agg cover that comes across the top. So no changes in terms of overall structure, the only buy down was Motor.

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**Stephen Hester, Group Chief Executive**
I think the - one of the things that we're trying to do is to get to the quality of earnings and sustainability point which as I say in the end the only way you ultimately get to it is by delivering things every year. And we're an industry where every year there'll be some things that go wrong and so the pattern won't be as smooth as we might like it as in our case the UK demonstrated this year.

But that's partly for that reason that we're spending a lot of our time on the things that should be sustainable, huge gains in cost efficiency, very, very substantial gains in attritional loss ratios and then of course we'll have other things that bounce around because we think that those will give our business sustainably higher performance, that will give us higher cash flows that are more reliable. And of course the bit that is unusual in us, in our makeup relative to all other international companies, is the Scandinavian component because none of the other international players have that. And so I think it's relatively fair for us to point out that the quality of Scandinavian P&C cash flows is a level higher than other things.

So I think it would be - to me the issue is less an argument about the share price, it's more that our job is to produce sustainable high quality earnings, and it's also to explain to you what we're doing, why we're doing it and give you a chance to see whether you think we're achieving that or not.

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**Thomas Seidl, Sanford Bernstein**
First on large losses UK, this has grown over the last years the book, so my question is to what extent are those large losses driven by mix change as limit changes, you know different sectors you underwrite?

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**Stephen Hester, Group Chief Executive**
Obviously there is a relationship between size of book and large losses and mix changes, and indeed there'll be a mix change the other way around with Nationwide coming on because you get a small balance between personal and - but I think within that I don't think there's a dramatic mix change that should really lead us to be different.

You know inevitably as I said at the third quarter although we hope that we will bounce back to the five year average performance, we're planning on a more conservative large loss load and that's why in order to offset the negative impacts of that and that's why I said we think it will take that plus time to earn through on Household, is why we don't think the UK will hit the targets we set with the speed that we thought it would. And that's why we brought forward the extra cost saving programme to try to mitigate a more conservative view of large losses.

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**Thomas Seidl, Sanford Bernstein**
On the Nationwide of course you pay a profit commission and we know from the previous owner that this runs at pretty high 90 combined ratio level. So what is your planned assumption? How much is this above the 94 target?

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**Stephen Hester, Group Chief Executive**
You can never expect us to get into a contract by contract discussion of profitability because obviously that has to remain private. But our goal is that the UK business performs at better than 94 combined ratio, and you can take it that it would be unlikely for us to want to do things to make that goal harder to meet.

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**Thomas Seidl, Sanford Bernstein**
And finally on IT, you spent another £130m on IT this year. What have you spent it for and how long is this going on?

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**Stephen Hester, Group Chief Executive**
Well I think that the great things that the modern world is bringing us in terms of technology and data and insights that cascade off it are - the good news is that's helping us to serve customers better, it's helping us to be cleverer underwriters and it's helping us to reduce cost. But to unlock those three goods you've got to get better at technology and that involves capitalised spend in effect, so the form of unlocking that instead of being - has been restructuring charges in part but we're moving past the restructuring charges into the more capability intensive. And so I think the probability is that for quite a few years into the future we spend more than depreciation on IT as a way to get those other three goods in terms of customer underwriting.

Now we're not talking large amounts of money, I think last year from memory it was £30m more, you know this is not very distortive in terms of the capital intensity of the company. But nevertheless technology has to become our friend, not our enemy, if we're to succeed and some of that involves expenditure.

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**Thomas Seidl, Sanford Bernstein**

On the balance sheet we should expect this £130m to continue at this level?

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**Stephen Hester, Group Chief Executive**
It will bounce around because it's very project specific.  So for example in the UK we're in a big spend moment because we're completely renewing the policy platform and then we'll renew the claims platform.  In Canada we were also in big spend last year because we were putting in a new claims platform.  In Scandi we weren't in big spend mode.  So it will vary according to what you're doing and the particular timing of it.  So as I say I think overall it is comfortably contained in the guidance we've given in terms of capital sources and uses, but in any one year it will bounce around a little bit.

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**Ravi Tanna, Goldman Sachs**
Just two questions please.  The first is on your debt leverage in capital mix again.  I know you referenced the fact that Core Tier 1 you're expecting to drift higher over time, but maybe you could perhaps elaborate a little bit more on usage of debt?  I know in recent times you've taken that down with a mind to lowering finance costs but on the whether it's a regulatory or a rating agency view there seems to still be quite a lot of capacity to use more debt if that's deemed appropriate.  So I was wondering if you could just comment on how you think about that?

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**Stephen Hester, Group Chief Executive**
Truthfully and speaking completely personally I do not believe in non-equity forms of capital.  They're not there when you need them which is in a crisis.  However we have the regime that we have and so we're not going to be ignorant in terms of not failing to use those things.  But plus or minus our current debt is about right, about what we want to have, so I don't foresee material changes to that in the near term.  We had to do two things, one we wanted to reduce the quantum which gives us some flexibility, and two we wanted to reduce the cost of it which we've also done.  I don't see much change to that.  We do obviously have a tax asset in there.  We'll keep reporting that for as long as it's there but its value as real capital is approximately that.

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**Ravi Tanna, Goldman Sachs**
Okay thank you, that's very clear.  And then the second almost kind of in a similar vein I suppose but on the investment portfolio mix it's something that's been de-risked for obvious reasons over the last few years.  I was just wondering how you're thinking about the overall mix?

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**Stephen Hester, Group Chief Executive**

No change.  I mean there's always fiddling but no change.

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**Question - Andy**
Thanks guys.  So looking at the slide where you're talking about the dividend outlook and how you can increase the dividend payout in the future, I guess I'm a bit struggling because I can't see any holding company cash flow disclosure in the Group.  I understand that wasn't really important when you were paying a low dividend but if the plan is to increase the payout ratio of the dividend could you give us some idea about the dividends you're receiving from subsidiaries to the holding company?

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**Stephen Hester, Group Chief Executive**
All earnings, more or less, it's never quite the same, but you should assume all earnings are available in the same pattern as they are anywhere else.  We have no - our holding company has nothing in it, it owns the operating companies, that's it.  There's no debt, there's no Aviva type structure at all.  So almost always 100% of earnings are cash, are capital.  To the extent any one region is growing they'll retain some in the same way that - the same proportion of the Group, the rest gets dividended through.  So there is nothing that would distort the Group consolidated picture in terms of our internal capitalisation.

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**Question - Andy**
So there's no inter Group debt did you say?

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**Stephen Hester, Group Chief Executive**
No there's nothing that would distort the distribution pattern that we've given you in terms of - so we do put leverage into the subsidiaries because we have leverage at the Group level and we pass it down, and we want to be leveraged in a similar way and the subsidiaries to the Group level. But there is absolutely no impediment to capital or dividends flowing, and they do flow in roughly the pattern of the Group consolidated picture.

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**Question - Andy**
It would just be very good to see that actual slide in future just to justify your ability to increase the payout as you're saying in here.  Particularly things like I think there's a security reserve in Sweden isn't there with locked tracked and capital and things?

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**Stephen Hester, Group Chief Executive**
No if we liquidated Sweden that's relevant, but it's not relevant at all to earnings.

Any more for any more?

Terrific. Well look thank you very much for joining us. We think that our ambitions are clear. We believe that the company is getting stronger and better. We believe we can keep making it stronger and better and if we do that we believe that shareholders can benefit both from profits and from earnings.

I think that the last couple of years hopefully have demonstrated to you a couple of things. On the plus side they've demonstrated to you that we are building a track record at being able to deliver and that that track record is founded on some underlying improvements in relation to costs and attritional loss ratios. It's also I hope reminded you that we're in a business that has volatility, and 2016 I would say everything went right relative to our plans and so we achieved at the top end of what we thought we could achieve. 2017 the top end of what we thought we could achieve was probably about 49p a share and we delivered 43.5p a share.

So it continues to be the case that we have high ambitions. It continues to be the case in my view that most years we'll fall short of those ambitions although I think the slope will continue to go up and we look forward to talking about that with you in respect of 2018 as we go through it. Thank you very much.

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