
12 May 2011

Quarter 1 2011: Continued strong top-line momentum and financial position

- Net written premiums of £2.1bn up 8%
- All regions delivering good growth, with organic growth supported by prior year acquisitions
- IGD surplus of £1.4bn; coverage remains strong at 2.1 times
- Total net asset value per share of 105p compared with 104p at 31 December 2010¹
- Remain confident of delivering full year premium growth of around 10% in International, targeted growth in the UK and double digit growth in Emerging Markets
- Continue to expect to deliver a COR of better than 95% in 2011

Overview

We have made a strong start to the year with the premium momentum generated in 2010 continuing into 2011. Net written premiums for the three months to 31 March 2011 are £2,101m, an increase of 8% over the first quarter of 2010 (8% at constant exchange), with premium growth driven by 4% rate and 5% from deals and acquisitions offset by a 1% reduction in volumes.

- International net written premiums of £1,101m up 7% (7% at constant exchange)²
- UK net written premiums of £760m up 9%²
- Emerging Markets net written premiums of £235m up 15% (15% at constant exchange)²
- Indian associate net written premiums of £33m up 27% (22% at constant exchange)

Premium growth has been driven by strong performances in Canada and Ireland supported by prior year acquisitions, UK Personal lines where we have delivered good growth in Pet and continued to take strong rating action, and double digit growth in Emerging Markets led by another excellent performance in Latin America. For the full year, we continue to expect to deliver around 10% premium growth in International, targeted growth in the UK and double digit growth in Emerging Markets.

During the quarter, the insurance industry has been impacted by natural catastrophes in Australia, New Zealand and Japan. We have limited exposure to these events through Global Risk Solutions and Marine written mainly through our UK Commercial lines business and expect the aggregate net claims to be around £25m.

As it stands today and assuming a continuation of the current more normal levels of weather losses compared with 2010, we continue to expect to deliver a COR of better than 95% in 2011 and, as previously reported, we also expect investment income for 2011 to be around £550m and total gains to be around £50m.

Andy Haste, Group CEO of RSA, commented:

“The Group has made a strong start to the year with the excellent top line momentum we generated in 2010 continuing in the first quarter of 2011. Our strategy of driving rate and targeted organic growth supported by acquisitions continues to be successful. In International, last year’s acquisitions in Canada and Ireland both performed strongly, in the UK we continue to drive growth in Personal lines and in Emerging Markets, double digit growth was led by another excellent quarter in Latin America. We remain confident in our outlook for 2011 and as it stands today, continue to expect to deliver a combined operating ratio for the Group of better than 95%.”

¹ See notes to the IMS Note 4

² See notes to the IMS Note 1

Business Update

The Group has made a strong start to 2011 with net written premium growth of 8% (8% at constant exchange) compared with the first quarter of 2010. This reflects a continuation of the momentum generated in 2010, where full year growth was 8% at constant exchange and is significantly ahead of the 3% at constant exchange delivered in the first quarter of 2010.

The 2011 first quarter premium growth of 8% comprises 4% of rate led by Personal lines in Ireland, the UK and Canada and 5% from recent acquisitions and the Tesco Pet deal. Across the Group, volumes were down by 1% with growth in Emerging Markets, Canada and targeted UK lines offset by the exit of Motor schemes and withdrawal of Mid-Market capacity in the UK and reductions in Scandinavian Commercial lines.

- International

International premiums are up by 7% to £1,101m (7% at constant exchange), with excellent performances in Canada and Ireland and good growth in Scandinavian Personal lines. The integrations of our recent acquisitions of GCAN in Canada and 123 Money in Ireland are progressing well.

In Scandinavia, premiums of £659m were down 1% (down 1% at constant exchange) with growth in Personal lines offset by a reduction in Commercial lines. Personal lines premiums of £338m were up by 4% (3% at constant exchange) driven by Personal Accident, Care and Danish Motor. Across Scandinavia, the Commercial market remains competitive and premiums of £321m were down 5% (down 5% at constant exchange) compared with an 8% reduction in the first quarter of 2010, reflecting a stronger 2011 renewal season. Growth in Renewable Energy, Marine and Norway was offset by the non-renewal of a small number of large accounts in Commercial Property and Danish Workers Compensation.

In Canada, premiums of £291m were up by 26% (23% at constant exchange) driven by rate increases, strong retention and the acquisition of GCAN, which contributed 11 points (11 points at constant exchange) of the first quarter's growth. In Personal lines, premiums were up by 13% (10% at constant exchange) to £195m with Johnson performing strongly, delivering growth of 15% (13% at constant exchange). Commercial lines were up by 66% (60% at constant exchange) to £96m driven by the acquisition of GCAN, for which regulatory approval was received in January, as well as strong performances in Small, Mid-Market and Risk Solutions.

In Other Europe, premiums were up by 12% to £151m (16% at constant exchange). In Ireland, growth of 19% (24% at constant exchange) to £94m was driven by 123 Money, which delivered NWP of £21m in the first quarter and strong rate increases across the portfolio, including a 16% increase in Household and 9% in Personal Motor, offset by a reduction in Commercial exposures. In Italy, NWP of £57m was up by 8% (12% at constant exchange) due to increased Motor rates and improved retention.

- UK

The UK delivered another strong top-line performance, with overall premiums of £760m up by 9% on the first quarter of 2010. Our strategy of pushing rate, targeting profitable growth and selective capacity withdrawal where we cannot achieve target returns remains unchanged.

In Personal lines, premiums increased by 20% to £337m, with the Tesco Pet deal, announced last year, contributing £36m of NWP or around 13 points of growth and rate accounting for 6 points. Personal Broker continued to demonstrate excellent growth, with Household premiums up by 24% and Motor Panels up by 55% due to rate action and good underlying panel growth. This was offset by the

expected 72% reduction in Broker Motor Schemes following action taken in 2010 to exit unprofitable contracts.

In Commercial, we continue to target growth in Specialty lines and withdraw capacity where we are unable to meet our target returns and premiums of £423m were up by 1% compared with the first quarter of 2010. This reflects capacity withdrawal in Mid-Market, which is down by 21% to £95m offset by growth in Marine, up by 12% to £75m and European Risk Solutions, which grew by 18% to £66m.

Across the UK, we continue to take the right action on rate and have achieved a 20% rate increase in Personal Motor and 5% in Household, while in Commercial, we achieved increases of 6% on Liability, 5% on Property and 10% on Motor.

- Emerging Markets

Emerging Markets has delivered double digit growth with net written premiums of £235m up by 15% (15% at constant exchange). Total premiums including our associate in India are £268m up by 17% (16% at constant exchange).

In Asia and the Middle East, premiums of £55m were up by 12% (12% at constant exchange) led by Specialty lines which grew by 27% across the region, driven by Risk Solutions and Marine, and the benefit of last year's acquisition of Al Ahlia in Oman. Our Indian associate continues to perform well and premiums are up by 27% to £33m (22% at constant exchange), with Personal Motor growing on the back of strong new car sales.

In Latin America, premiums of £132m were up by 22% (21% at constant exchange) with strong double digit growth in Argentina, Brazil, Chile, Colombia, Mexico and Uruguay. Affinity continued to perform well across the region, with 4 new deals signed including Banca Mifel in Mexico and Proteccion Garantizada in Colombia, which provides us with exclusive access to four million customers. We also drove good growth in Marine in Brazil and Motor in Argentina and Uruguay.

In Central and Eastern Europe, premiums of £48m were up by 2% (4% at constant exchange). Across the Baltics, we are seeing economic recovery in Estonia and Lithuania, which will support a return to growth in the insurance market. In the first quarter, we maintained our overall market leading position with double digit growth in Estonia, premiums in line with the prior year in Lithuania and marginally down in Latvia. In Estonia, we have also recently signed an agreement which makes us the exclusive provider of non-life insurance products to the customers of SEB Bank, Estonia's second largest bank. Our Direct businesses in Poland, the Czech Republic and Russia grew at 12% driven by strong new business levels and expanded distribution in Poland.

A full breakdown of Group net written premiums and rating actions for the first quarter is included in the notes to the IMS.

Financial Position and 2011 Outlook

- Investment Portfolio

The investment portfolio totalled £14.8bn at 31 March 2011, in line with 31 December 2010, with foreign exchange gains offset by mark to market losses and other negative movements.

The Group continues to benefit from its low risk investment strategy with 86% of the total investment portfolio invested in high quality fixed income and cash assets. We continue to implement a number of actions to mitigate falling yields and respond to changed investment conditions, including increasing the proportion of non governments towards 60% of the bond portfolio and minimising cash balances. As previously reported, we currently expect investment income in 2011 to be around £550m and total gains to be around £50m.

- Shareholders' Funds and Capital Position

Total shareholders' funds including the pension deficit were £3,793m (105p per share), compared with £3,766m at 31 December (104p per share) due to retained profits and foreign exchange gains partially offset by fair value and actuarial losses. The pension fund deficit of £142m at 31 December has reduced to a deficit of £123m driven by employer contributions. Shareholders' funds as at 31 March 2011, excluding the pension fund deficit, were £3,916m (109p per share) compared with £3,908m (108p per share) at 31 December 2010.

The Group's capital position remains strong. At 31 March, the IGD surplus of £1.4bn was slightly lower than the position at 31 December 2010 due to the acquisition of GCAN which completed in January 2011. Coverage remained strong at 2.1 times the requirement. The economic capital surplus reduced marginally to £1.0bn primarily reflecting the declaration of the recommended final 2010 dividend.

Our financing and liquidity position is also strong and our committed £455m senior facility remains undrawn as at the end of the first quarter.

Further details on movements in the investment portfolio, net asset value, pension surplus and capital position are provided in the notes to the IMS.

- Combined Operating Ratio

As it stands today, and assuming a continuation of the current more normal levels of weather losses compared with 2010, we continue to expect to deliver a combined operating ratio of better than 95% in 2011.

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Notes to the IMS:

1. Set out below are the net written premiums for each of the regions for the three months to 31 March 2011:

	Net written premiums		Increase as reported %	Increase at constant exchange %
	Q1 2011 £m	Q1 2010 £m		
International				
Scandinavia	659	663	(1)	(1)
Canada	291	231	26	23
Other Europe	151	135	12	16
Total International	1,101	1,029	7	7
UK				
Personal	337	280	20	20
Commercial	423	417	1	1
Total UK	760	697	9	9
Latin America	132	108	22	21
Asia & Middle East	55	49	12	12
Central & Eastern Europe	48	47	2	4
Emerging Markets	235	204	15	15
Group Re	5	8	(38)	(38)
Total Group	2,101	1,938	8	8

2. Rate movements achieved for risks renewing in March 2011 versus comparable risks renewing in March 2010 were as follows:

	Personal		Motor %	Commercial		Property %
	Motor %	Household %		Liability %		
Scandinavia	4	7	3	3	3	
Canada	4	13	2	2	2	
UK	20	5	10	6	5	

3. The movement in the value of the investment portfolio from 31 December 2010 to 31 March 2011 is set out below:

	Value 31/12/2010 £m	Foreign Exchange £m	Mark to Market £m	Other Movements £m	Value 31/3/2011 £m
Government Bonds	5,340	100	(57)	(287)	5,096
Non Government Bonds	6,095	100	(60)	387	6,522
Cash	1,317	5	-	(281)	1,041
Equities	1,286	11	14	26	1,337
Property	374	1	1	1	377
Prefs & CIVs	264	1	10	7	282
Other	113	1	-	34	148
Total	14,789	219	(92)	(113)	14,803

The investment portfolio of £14,803m is in line with the balance at 31 December 2010, with foreign exchange gains of £219m offset by negative mark to market movements of £92m and other movements of £113m. The foreign exchange gains reflect the depreciation of Sterling against the Danish Krone, Swedish Krona and Euro. The mark to market movement reflects decreases on bonds partially mitigated by gains on equities and Prefs & CIVs (Collective Investment Vehicles). Other movements include the reinvestment of funds held in maturing government bonds into non government bonds and a reduction in cash balances and increase in non government bonds following the completion of the GCAN acquisition.

At 31 March 2011, unrealised gains in the statement of financial position were £487m (31 December 2010: £580m).

86% of the total investment portfolio remains invested in high quality fixed income and cash assets. The fixed interest portfolio is concentrated on high quality short dated assets, with 98% of the bond portfolio investment grade, and 76% rated AA or above. The bond holdings are well diversified, with 78% invested in currencies other than Sterling and 56% invested in non government bonds (31 December 2010: 53%). The average duration is 3.4 years for the Group.

The government bond portfolio of £5.1bn is high quality, with 87% rated AAA and 95% rated A or above. Our exposure to Greece, Ireland, Italy, Portugal and Spain at 31 March 2011 was £206m, just over 1% of the total portfolio. Of this exposure, the majority is held to back the liabilities of our European insurance operations, with £107m in Ireland and £50m in Italy. Additionally, we hold £43m and £6m of Spanish and Greek government debt respectively.

The non government bond portfolio of £6.5bn comprises £1.9bn of Scandinavian Mortgage Bonds, £3.0bn of other financials and £1.6bn of non financials. The Scandinavian Mortgage Bonds portfolio comprises £1.2bn of Swedish bonds, which are all rated AAA, and £0.7bn of Danish bonds, which are principally rated AAA. The Scandinavian Mortgage Bond portfolio has an average LTV of around 60%. Within the £3.0bn of other financial exposure, £0.3bn is in supranational and sovereign backed entities, £0.8bn in other non bank financials and £1.9bn in banks. Of the £1.9bn in banks, just £270m of this is subordinated debt and only £74m is Tier 1 (including non-perpetual preference shares). Across Greece, Ireland, Italy, Portugal and Spain, we hold only £106m of senior and £7m of subordinated bank debt.

Equities (excluding preference shares and CIVs backed by fixed income and cash) comprised 9% of the portfolio. We continue to hedge our equity portfolio, with around 59% of the exposure hedged with a rolling programme of put and call options, providing protection down to a FTSE level of 4,250.

We will continue to look for opportunities to enhance yield within the framework of our high quality, low risk investment strategy. As it stands today and with the actions we are taking, we continue to expect investment income for 2011 to be around £550m and total gains to be around £50m.

4. The Group's shareholders' funds including and excluding the pension deficit are as follows:

	Shareholders' funds ex. IAS 19 £m	Pension deficit £m	Shareholders' funds £m	Shareholders' funds ex. IAS 19 per share	Shareholders' funds per share
31 December 2010	3,908	(142)	3,766	108p	104p
31 March 2011	3,916	(123)	3,793	109p	105p

At 31 March 2011, shareholders' funds excluding the pension scheme were £3,916m, marginally increased from the beginning of the year due to retained profit and foreign exchange gains offset by fair value and actuarial losses.

The reduction in the pension fund deficit from £142m at 31 December 2010 to £123m at 31 March 2011 primarily reflects employer contributions in the period. Changes in market driven assumptions in accordance with IAS19 had a neutral effect, with the increase in the discount rate from 5.5% to 5.6%, in line with increasing corporate bond yields, offset by increases in our general inflation assumption from 3.1% to 3.2% and pension increase inflation assumption from 2.9% to 3.0%.

Shareholders' funds including the pension funds were £3,793m, an increase of 1% over the quarter.

5. The Group's regulatory capital position under the Insurance Groups Directive (IGD) is set out below:

Insurance Groups Directive	Requirement £bn	Surplus £bn	Cover
31 December 2010	1.2	1.5	2.3x
31 March 2011	1.2	1.4	2.1x

The IGD surplus reduced by £0.1bn from 31 December due to the acquisition of GCAN for which regulatory approval was received in January 2011.

At 31 March 2011, the Group had surplus economic capital of £1.0bn, down £0.1bn from 31 December 2010 primarily reflecting the declaration of the recommended final 2010 dividend. This is based on a risk tolerance consistent with Standard & Poor's long term A rated bond default curve and is equivalent to a probability of solvency over one year of 99.92%.

6. Foreign exchange rates used to translate the 2011 and 2010 consolidated results included in this statement are as follows:

Local currency/£	Average		31 March 2011	Closing	
	3 Months 2011	3 Months 2010		31 December 2010	31 March 2010
Canadian Dollar	1.58	1.62	1.56	1.56	1.54
Danish Krone	8.73	8.39	8.42	8.70	8.35
Swedish Krona	10.39	11.23	10.11	10.52	10.92
Euro	1.17	1.13	1.13	1.17	1.12

7. Movements since 31 March 2011

As at 11 May, the IGD and economic capital surpluses are unchanged at £1.4bn and £1.0bn respectively. Shareholders' funds are also unchanged and net asset value per share is estimated at 105p.

A 30% fall in the FTSE from current levels of around 6,000 would reduce the IGD surplus by an estimated £0.3bn.

8. This trading update constitutes RSA's Interim Management Statement for the period 31 December 2010 to 11 May 2011.

About RSA

With a 300 year heritage, RSA is one of the world's leading multinational quoted insurance groups. RSA has major operations in the UK, Scandinavia, Canada, Ireland, Asia and the Middle East, Latin America and Central and Eastern Europe and has the capability to write business in over 130 countries. Focusing on general insurance, RSA has around 22,000 employees and, in 2010, its net written premiums were £7.5 billion.

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