

IMMEDIATE

3 November 2011

**RSA Interim Management Statement****Quarter 3 2011: Continued strong top line momentum and financial position**

- Net written premiums of £6.1bn up by 11% with all regions delivering good growth
- Rating action and recent deals and acquisitions continue to drive the top line forward
- IGD surplus of £1.3bn; coverage remains strong at 2.0 times
- Net asset value per share including IAS 19 of 101p compared with 106p at 30 June 2011<sup>1</sup>
- Continue to expect to deliver a combined operating ratio (COR) of better than 95% in 2011

**Overview**

Premium momentum remains strong, with net written premiums for the nine months to 30 September 2011 of £6,132m, an increase of 11% (9% at constant exchange) over the same period in 2010.

- International net written premiums of £2,992m up 13% (9% at constant exchange)<sup>2</sup>
- UK net written premiums of £2,318m up 7%<sup>2</sup>
- Emerging Markets net written premiums of £800m up 17% (17% at constant exchange)<sup>2</sup>
- Indian associate net written premiums of £106m up 26% (29% at constant exchange)

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 Household, and Emerging Markets, which has again been led by an excellent performance in Latin America. For the full year, we remain confident of delivering around 10% premium growth in International, targeted growth in the UK and double digit growth in Emerging Markets.

Net asset value per share including the pension scheme deficit is 101p compared with 106p at 30 June 2011 with profits for the period offset by exchange losses, the interim dividend and the increase in the pension scheme deficit due to a movement in actuarial assumptions. During the quarter, pension scheme assets performed in line with expectations with the fall in equity values mitigated by previous derisking actions and our swap programme. As at 2 November 2011, net asset value per share including the pension scheme deficit is estimated to have increased to 106p, driven by retained profits, foreign exchange gains and a reduction in the pension scheme deficit.

Since the half year, we have seen a continuation of the high frequency of catastrophe events experienced in the first six months with adverse weather in Denmark and more recently, in Ireland and Thailand expected to impact the Group by around £60m. Despite these events, we continue to benefit from our strong and diversified portfolio, focus on underwriting discipline, prudent reinsurance programme and high quality, low risk investment strategy. As it stands today and assuming normal levels of weather losses in the remainder of the year, we continue to expect to deliver for the full year 2011 a COR of better than 95%, investment income of between £560m and £570m and total gains of around £120m.

**Simon Lee, Group CEO of RSA, commented:**

"These are strong results in challenging market conditions. We have continued to build momentum and drive growth across the business while maintaining a strong financial position. Premiums have grown by 11% reflecting targeted organic initiatives, rate and the benefits of our 2010 deals.

"I feel privileged to be leading such a great business and I'm confident in our ability to continue to meet our targets and deliver sustainable profitable performance. While the external environment remains tough, as things currently stand, we continue to expect to deliver a combined for the Group of better than 95% in 2011."

<sup>1</sup> See notes to the IMS Note 4

<sup>2</sup> See notes to the IMS Note 1

## **Business Update**

The Group has delivered another strong quarter and year to date premium growth of 11% (9% at constant exchange) comprises 4% of rate on renewals, 5% from 2010 deals including GCAN in Canada, 123 Money in Ireland and Tesco Pet in the UK and 2% from foreign exchange. Volumes have remained flat across the Group, with growth in Emerging Markets, Canada and Specialty lines offset by reductions in UK Personal Motor and Mid-Market Commercial lines.

### **- International**

International has delivered a strong top line performance with premiums up by 13% to £2,992m (9% at constant exchange).

In Scandinavia, premiums of £1,439m were up by 7% (2% at constant exchange) with a strong quarter in Commercial lines, where year to date premiums of £609m were up by 8% (4% at constant exchange) driven by Renewable Energy, Marine and Norway. Personal lines premiums of £830m were up by 7% (1% at constant exchange), with growth in Personal Accident, Swedish Household and Danish Motor offsetting volume reductions in Norway. In July, Copenhagen experienced a severe storm with two months of rain falling in two hours and the net cost of this event to the Group under our reinsurance programme is expected to be limited to around £20m.

Canada has delivered excellent growth, with premiums of £1,108m up by 20% (19% at constant exchange) driven by rate increases, strong retention and the benefit of the acquisition of GCAN which contributed 10 points of the overall growth (10 points at constant exchange). In Personal, premiums of £763m were up by 9% (9% at constant exchange) with good performances from both Personal Intermediated, up by 8% (7% at constant exchange) and Johnson, our direct brand, which grew by 11% (10% at constant exchange). In Commercial lines, net written premiums of £345m increased by 51% (50% at constant exchange) driven by GCAN, which contributed 41 points of the growth (41 points at constant exchange) and strong performances in SME and Risk Solutions.

In Other Europe, premiums are up by 16% (14% at constant exchange) to £445m. In Ireland, growth of 22% (20% at constant exchange) to £270m is driven by last year's acquisition of 123 Money which delivered premiums of £63m. We also continued to push rate across the portfolio including 6% increases across both Household and Personal Motor. In October, heavy rainfall has caused significant flooding in Dublin and the net cost to the Group under our reinsurance programme is also expected to be limited to around £20m. In Italy, we continue to take the right action and net written premium growth of 7% (6% at constant exchange) to £175m is driven by our rating action on Motor.

Across International, for the full year 2011 we remain confident of delivering premium growth of around 10% and continued strong profitability.

### **- UK**

The UK continues to deliver a strong top line performance in what remains a competitive market, with premiums of £2,318m up by 7% driven by our continued focus on rate, targeted organic growth and deals.

In Personal, premiums are up by 13% to £1,036m with growth in Pet and Household offsetting a further reduction in Motor. Across Personal lines, Tesco Pet and other deals contributed 12 points of the overall growth, with rate on renewals contributing a further 7 points. Against this was a 6 point reduction in volume, predominantly in Motor where we continue to achieve significant rate increases.

Across Commercial lines, we continue to target growth in Specialty lines and withdraw capacity where we are unable to meet our target returns. Premiums of £1,282m are up by 2% reflecting continued capacity reduction in Mid-Market, which is down by 12% to £334m, offset by growth of 7% in Marine to

£219m and Risk Solutions Europe of 24% to £115m. Commercial Motor is again impacted by the phasing of a three year contract and on an underlying basis, premiums are in line with the same period in 2010.

Given the competitive market conditions and our focus on driving targeted profitable growth, we continue to expect premium growth across the UK for the full year 2011 to be marginally down on the 7% reported at the third quarter.

#### **- Emerging Markets**

Emerging Markets again delivered excellent growth with net written premiums of £800m up by 17% (17% at constant exchange). Total premiums, including our associate in India, are £906m representing growth of 18% (18% at constant exchange).

In Latin America, premiums of £468m were up by 18% (17% at constant exchange) with double digit growth in Brazil, due to Marine and Commercial Motor, Colombia, driven by an increase in affinity sales, and Argentina and Uruguay where we saw another strong performance in Motor.

In Central and Eastern Europe, premiums are up by 12% (11% at constant exchange) to £163m. We have maintained our leading position across the Baltics with premiums up by 6% (5% at constant exchange) to £99m. Our Lithuanian and Estonian businesses have returned to growth and in Latvia, premiums are broadly in line with the same period last year. Our Direct businesses in Poland, the Czech Republic and Russia grew by 23% (21% at constant exchange) generating premiums of £64m with all operations delivering double digit growth.

We have also seen strong growth in Asia and the Middle East, with premiums of £169m up by 20% (23% at constant exchange) led by Oman and Specialty lines in Hong Kong and Singapore. Through our Specialty business, we have some exposure to Thailand and would expect the net cost to the Group of the recent floods to be around £20m. Our Indian business again delivered excellent growth, with premiums of £106m up by 26% (29% at constant exchange) driven by the continued expansion of the motor market.

Emerging Markets remains an attractive place to do business, we continue to expect to deliver double digit growth in 2011 and are on track to achieve our target of doubling premiums to around £2.2bn by the end of 2015.

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

### **Financial Position and 2011 Outlook**

#### **- Investment Portfolio**

The investment portfolio totalled £14.4bn at 30 September 2011, marginally down on the half year position with foreign exchange losses partially mitigated by mark to market gains and other positive movements.

The Group continues to benefit from its low risk investment strategy with 89% of the total portfolio invested in high quality fixed income and cash. Our exposure to peripheral European government debt remains limited at £146m or around 1% of the total portfolio, the majority of which is held to back the liabilities of our Irish and Italian operations. Looking forward, we will continue to pursue this high quality, low risk strategy while taking appropriate and timely action within this framework to respond to changes in the investment environment.

### **- Shareholders' Funds and Capital Position**

Total shareholders' funds including the pension scheme deficit were £3,692m (101p per share), compared with £3,865m at 30 June 2011 (106p per share) due to retained profits offset by exchange losses, the movement in the pension scheme deficit and the interim dividend. The pension scheme deficit of £122m at 30 June 2011 has increased to £229m at 30 September 2011 due to reductions in the discount rate, partially offset by changes in inflation assumptions. Despite global market weaknesses in the third quarter, asset performance was broadly in line with expectations, with losses on equities offset by gains on the swap programmes put in place since 2005. As at 2 November 2011, net asset value per share including the pension scheme deficit is estimated to have increased to 106p, driven by retained profits, foreign exchange gains and a reduction in the pension scheme deficit.

Shareholders' funds as at 30 September 2011, excluding the pension scheme deficit, were £3,921m (108p per share) compared with £3,987m (110p per share) at 30 June 2011.

The Group's capital position remains strong. At 30 September 2011, the IGD surplus of £1.3bn was marginally lower than the position at 30 June 2011 and coverage remains strong at 2.0 times the requirement.

The economic capital surplus remains significant and was £0.7bn at 30 September 2011, compared with £1.0bn at 30 June 2011, with the decline in risk free yields and equity markets, as well as the interim dividend, offsetting capital generated during the quarter. Economic capital is the Group's own internal measure of capital and is calibrated to a risk tolerance consistent with Standard & Poor's long term A rated bond default curve, equivalent to a probability of insolvency over one year of 1 in 1,250. This compares with the 1 in 200 calibration under the FSA's Individual Capital Assessment (ICA) regime, resulting in a significantly higher capital surplus under ICA. Solvency II, which is currently expected to be implemented on 1 January 2014, will also be calibrated to a probability of insolvency over one year of 1 in 200.

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

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

### **- Combined Operating Ratio**

As it stands today, and assuming normal levels of weather losses in the remainder of the year, we continue to expect to deliver a combined operating ratio of better than 95% in 2011.

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## Notes to the IMS:

- Set out below are the net written premiums for each of the regions for the nine months to 30 September 2011:

	Net written premiums		Increase as	Increase at
	Q3 2011	Q3 2010	reported	constant
	£m	£m	%	exchange
				%
<b>International</b>				
Scandinavia	1,439	1,342	7	2
Canada	1,108	925	20	19
Other Europe	445	385	16	14
<b>Total International</b>	<b>2,992</b>	<b>2,652</b>	<b>13</b>	<b>9</b>
<b>UK</b>				
UK Personal	1,036	918	13	13
UK Commercial	1,282	1,257	2	2
<b>Total UK</b>	<b>2,318</b>	<b>2,175</b>	<b>7</b>	<b>7</b>
Latin America	468	397	18	17
Asia & Middle East	169	141	20	23
Central & Eastern Europe	163	145	12	11
<b>Total Emerging Markets</b>	<b>800</b>	<b>683</b>	<b>17</b>	<b>17</b>
Group Re	22	21	5	5
<b>Total Group</b>	<b>6,132</b>	<b>5,531</b>	<b>11</b>	<b>9</b>

- Rate movements achieved for risks renewing in September 2011 versus comparable risks renewing in September 2010 were as follows:

	Personal		Commercial		
	Motor %	Household %	Motor %	Liability %	Property %
Scandinavia	2	7	5	4	3
Canada	4	11	3	1	2
UK	19	6	14	2	5

3. The movement in the value of the investment portfolio from 30 June 2011 to 30 September 2011 is set out below:

	<b>Value 30/06/2011 £m</b>	Foreign Exchange £m	Mark to Market £m	Other Movements £m	<b>Value 30/09/2011 £m</b>
Government Bonds	<b>5,220</b>	(198)	149	(408)	<b>4,763</b>
Non Government Bonds	<b>6,423</b>	(217)	65	544	<b>6,815</b>
Cash	<b>1,052</b>	(27)	-	213	<b>1,238</b>
Equities	<b>1,225</b>	(19)	(139)	(195)	<b>872</b>
Property	<b>375</b>	(2)	-	(8)	<b>365</b>
Prefs & CIVs	<b>269</b>	(7)	(8)	8	<b>262</b>
Other	<b>131</b>	(3)	-	(33)	<b>95</b>
<b>Total</b>	<b>14,695</b>	<b>(473)</b>	<b>67</b>	<b>121</b>	<b>14,410</b>

The investment portfolio decreased marginally over the quarter to £14,410m, with foreign exchange losses of £473m offsetting mark to market gains of £67m and other positive movements of £121m. The foreign exchange movement reflects the strengthening of Sterling against the Danish Krone, Swedish Krona, Canadian Dollar and Euro in the quarter.

At 30 September 2011, unrealised gains in the statement of financial position were £549m (30 June 2011: £541m).

On investments, we continue to follow a high quality, low risk strategy and to take appropriate action to balance risk and return.

Having benefited from our increased equity weighting, during 2011 we have sold around £320m of equities locking in significant realised gains. Equities (excluding preference shares and Collective Investment Vehicles backed by fixed income and cash) now comprise 6% of the portfolio. Around 62% of the exposure remains hedged with a rolling programme of put and call options, providing protection down to a FTSE level of 4,425.

On peripheral Europe, our exposure to government bonds in Greece, Italy, Ireland, Spain and Portugal remains limited at £146m or around 1% of the total portfolio. Of this exposure, the majority is held to back the liabilities of our European insurance operations, with £75m in Ireland and £43m in Italy. Additionally, we hold £4m of Greek and £24m of Spanish government debt. We also have limited exposure to senior and subordinated bank debt in these countries and our holdings totalled just £109m and £6m respectively at 30 September 2011.

The average duration across the Group has remained at 3.4 years (30 June 2011: 3.4 years).

Of the total investment portfolio, 89% 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 75% rated AA or above. The bond holdings are well diversified, with 75% invested in currencies other than Sterling and 59% invested in non government bonds (30 June 2011: 55%).

The government bond portfolio of £4.8bn is high quality, with 88% rated AAA and 94% rated A or above. The non government bond portfolio of £6.8bn comprises £1.9bn of Scandinavian Mortgage Bonds, £3.2bn of other financials and £1.6bn of non financials. The Scandinavian Mortgage Bonds portfolio comprises £1.1bn of Swedish bonds, which are all rated AAA, and £0.8bn of Danish

bonds, which are principally rated AAA. The Scandinavian Mortgage Bond portfolio has an average LTV of around 60%. Within the £3.2bn of other financial exposure, £0.3bn is in supranational and sovereign backed entities, £0.8bn in other non bank financials and £2.1bn in banks. Of the £2.1bn in banks, just £261m of this is subordinated debt and only £72m is Tier 1 (including non-perpetual preference shares).

The commercial property portfolio is around 3% of investment assets and comprises high quality commercial properties.

At 30 September 2011, total impairments are around £3m. If equity markets were to be at 30 September levels of around FTSE 5,130 at the year end, we would expect total impairments for the full year to be around £20m and the value of the equity hedges to remain unchanged.

As it stands today, and as previously reported, we expect full year investment income to be between £560m and £570m and total gains to be around £120m in 2011.

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

	<b>Shareholders' funds ex. IAS 19 £m</b>	<b>Pension deficit £m</b>	<b>Shareholders' funds £m</b>	<b>Shareholders' funds ex. IAS 19 per share</b>	<b>Shareholders' funds per share</b>
30 June 2011	3,987	(122)	3,865	110p	106p
<b>30 September 2011</b>	<b>3,921</b>	<b>(229)</b>	<b>3,692</b>	<b>108p</b>	<b>101p</b>

As at 30 September 2011, shareholders' funds including the pension scheme deficit decreased by 4% to £3,692m with retained profits offset by exchange losses, the movement in the pension scheme deficit and the interim dividend.

Since 30 June 2011, the pension scheme deficit has increased to £229m at 30 September 2011 driven by a reduction in the discount rate from 5.6% to 5.1%, in line with decreasing corporate bond yields, which is partially mitigated by reductions in the long term general inflation assumption from 3.3% to 3.0% and the pension inflation rate from 3.1% to 2.8%. Despite global market weaknesses in the third quarter, asset performance was broadly in line with expectations with losses on equities, which constitute only 22% of the portfolio, offset by gains on a programme of long term swaps on interest rates and inflation which has been put in place since 2005.

Shareholders' funds excluding the pension scheme deficit were £3,921m, a decrease of 2% 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
30 June 2011	1.3	1.4	2.1x
<b>30 September 2011</b>	<b>1.3</b>	<b>1.3</b>	<b>2.0x</b>

The Group continues to hold a significant economic capital surplus of around £0.7bn at the end of September 2011 compared with £1.0bn at 30 June 2011. In the quarter, the surplus has been adversely impacted by the reduction in risk free yields, equity market falls net of hedging and the declaration of the interim dividend partially offset by economic capital generated.

The economic capital is our own assessment of capital given the Group's risk profile. Our model is calibrated to a risk tolerance consistent with Standard & Poor's long term A rated bond default curve, equivalent to a probability of solvency over one year of 99.92% or a probability of insolvency over one year of 1 in 1,250. This compares with the 1 in 200 calibration under the FSA's ICA regime, resulting in a significantly higher capital surplus under ICA. Solvency II, which is currently expected to be implemented on 1 January 2014, will also be calibrated to a probability of insolvency over one year of 1 in 200.

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

Local currency/£	Average		30 September 2011	Closing	
	9 Months 2011	9 Months 2010		30 June 2011	31 December 2010
Canadian Dollar	<b>1.58</b>	1.59	<b>1.62</b>	1.55	1.56
Danish Krone	<b>8.56</b>	8.68	<b>8.64</b>	8.26	8.70
Swedish Krona	<b>10.35</b>	11.27	<b>10.70</b>	10.13	10.52
Euro	<b>1.15</b>	1.17	<b>1.16</b>	1.11	1.17

7. Movements since 30 September 2011

As at 2 November, shareholders' funds have increased driven by retained profits, foreign exchange gains and a reduction in the pension scheme deficit and net asset value per share is estimated at 106p. The IGD and economic capital surpluses are estimated to remain unchanged at £1.3bn and £0.7bn respectively.

A 30% fall in the FTSE from current levels of around 5,480 would reduce the IGD surplus by an estimated £0.2bn.

8. This trading update constitutes RSA's Interim Management Statement for the period 30 June 2011 to 2 November 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.

## **Important disclaimer**

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