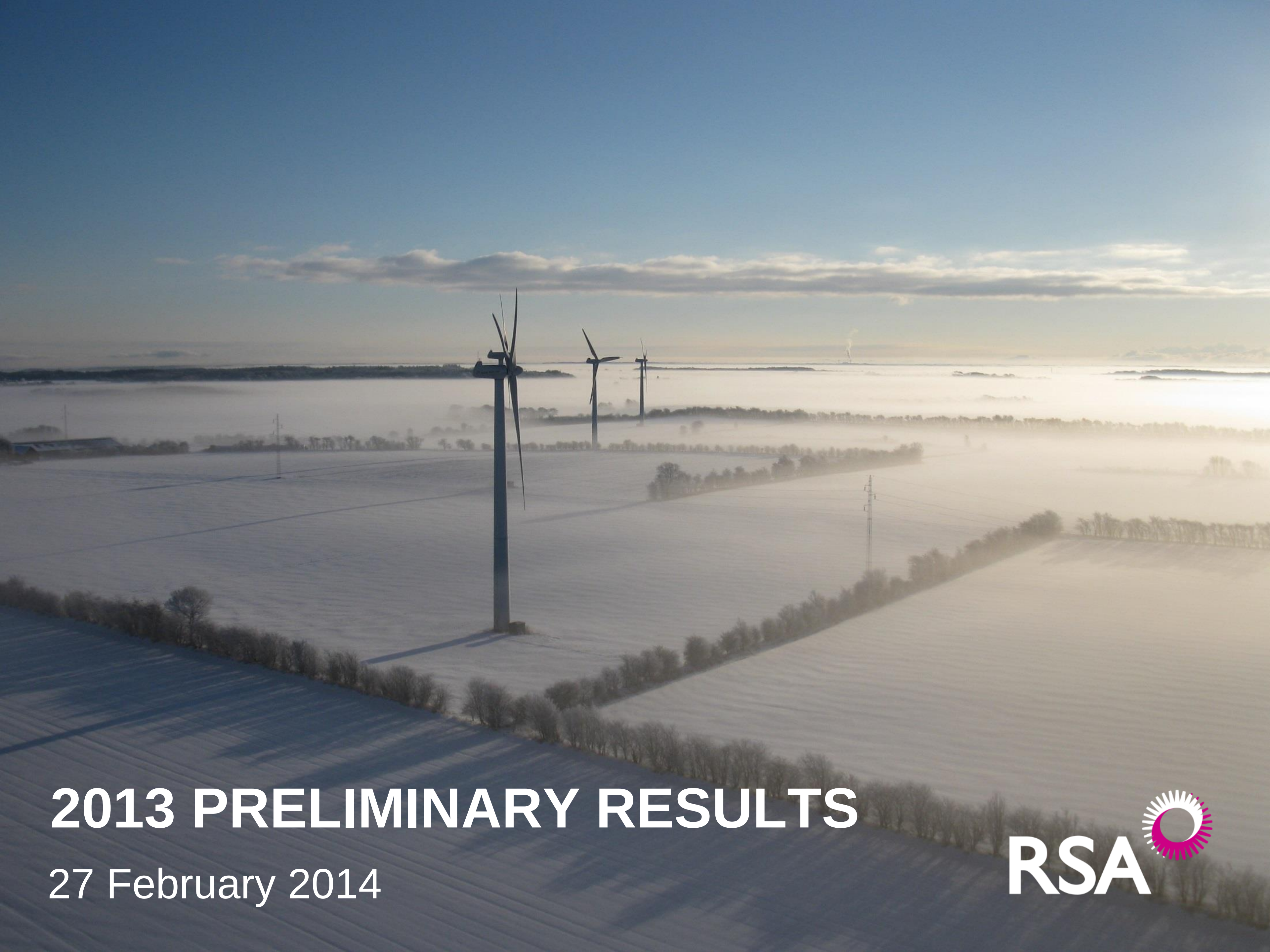

# 2013 PRELIMINARY RESULTS

27 February 2014

RSA

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# Agenda

| | |
|---|---|
| **Introduction** | **Martin Scicluna,**<br>**Chairman** |
| **2013 Results** | **Richard Houghton,**<br>**Chief Financial Officer** |
| **Strategy and Action Plan** | **Stephen Hester,**<br>**Group Chief Executive** |

# Introduction

- **Poor headline results in 2013**
    - ➢ Ireland, significant weather and asset write downs
- Normalised results demonstrate **solid underlying business**
- **Business review** commenced in December 2013
    - ➢ Substantial ‘self help’, done and underway
    - ➢ Big asks of shareholders
        - Pass final 2013 dividend
        - Launch £775m rights issue
- **New CEO appointed** February 2014
- Team focused on **addressing the issues** and building a **strong investment case**


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# 2013 Preliminary Results

# Disappointing performance in 2013

| £m (unless otherwise stated) | 2013 | 2012[1] |
|---|---|---|
| Net written premiums | **8,664** | 8,353 |
| Underwriting result | **57** | 358 |
| COR (%) | **99.6** | 95.6 |
| Investment result | **333** | 431 |
| Insurance result | **390** | 789 |
| Operating result | **286** | 667 |
| (Loss)/Profit before tax | **(244)** | 448 |
| (Loss)/Profit after tax | **(338)** | 327 |
| Return on tangible equity (%) | **(16.7)** | 13.4 |
| NAV per share (ex pension) (p) | **77** | 107 |

[1] Restated for changes to IAS19 "Employee Benefits"

# Operating result of £286m reported; £601m normalised

| £m | 2013 | Add back 2013 non recurring | 2013 Normalised[2] | 2012[1] |
|---|---|---|---|---|
| Current year | **12** | 172 | 184 | 167 |
| Prior year | **45** | 80 | 125 | 191 |
| **Underwriting result** | **57** | **252** | **309** | **358** |
| Investment income | **493** | - | 493 | 515 |
| Discount unwind | **(160)** | 63 | (97) | (84) |
| **Investment result** | **333** | **63** | **396** | **431** |
| Insurance result | **390** | 315 | 705 | 789 |
| Other activities | **(104)** | - | (104) | (122) |
| **Operating result** | **286** | **315** | **601** | **667** |

Adverse weather (£52m above long term average 2009-13) and Ireland irregularities and reserve strengthening of £200m

UK discount rate decrease from 5% to 4%

[1] Restated for changes to IAS19 "Employee Benefits"
[2] Normalised results exclude weather losses above planning assumptions, underwriting losses in Ireland, impact of reduction in discount rate on UK long term liabilities, restructuring costs including goodwill and intangible write downs

# Premium growth of 3% at constant exchange rates

Good rate increases across the region

Continued focus on profitability over volume in Denmark

2012 acquisition of L'Union Canadienne

| | Rate | Volume | Deals | Growth at constant FX | FX | Growth at reported FX |
|---|---|---|---|---|---|---|
| Scandinavia | 4% | (4%) | - | - | 4% | 4% |
| Canada | 2% | 2% | 7% | 11% | (2)% | 9% |
| UK | 3% | (6%) | - | (3)% | - | (3)% |
| WE | 2% | (6)% | - | (4)% | 5% | 1% |
| Emerging Markets | 1% | 12% | 3% | 16% | (3)% | 13% |
| **Group Total** | **3%** | **(2)%** | **2%** | **3%** | **1%** | **4%** |

Continued focus on profitability over volume in the UK

Solid continued organic growth



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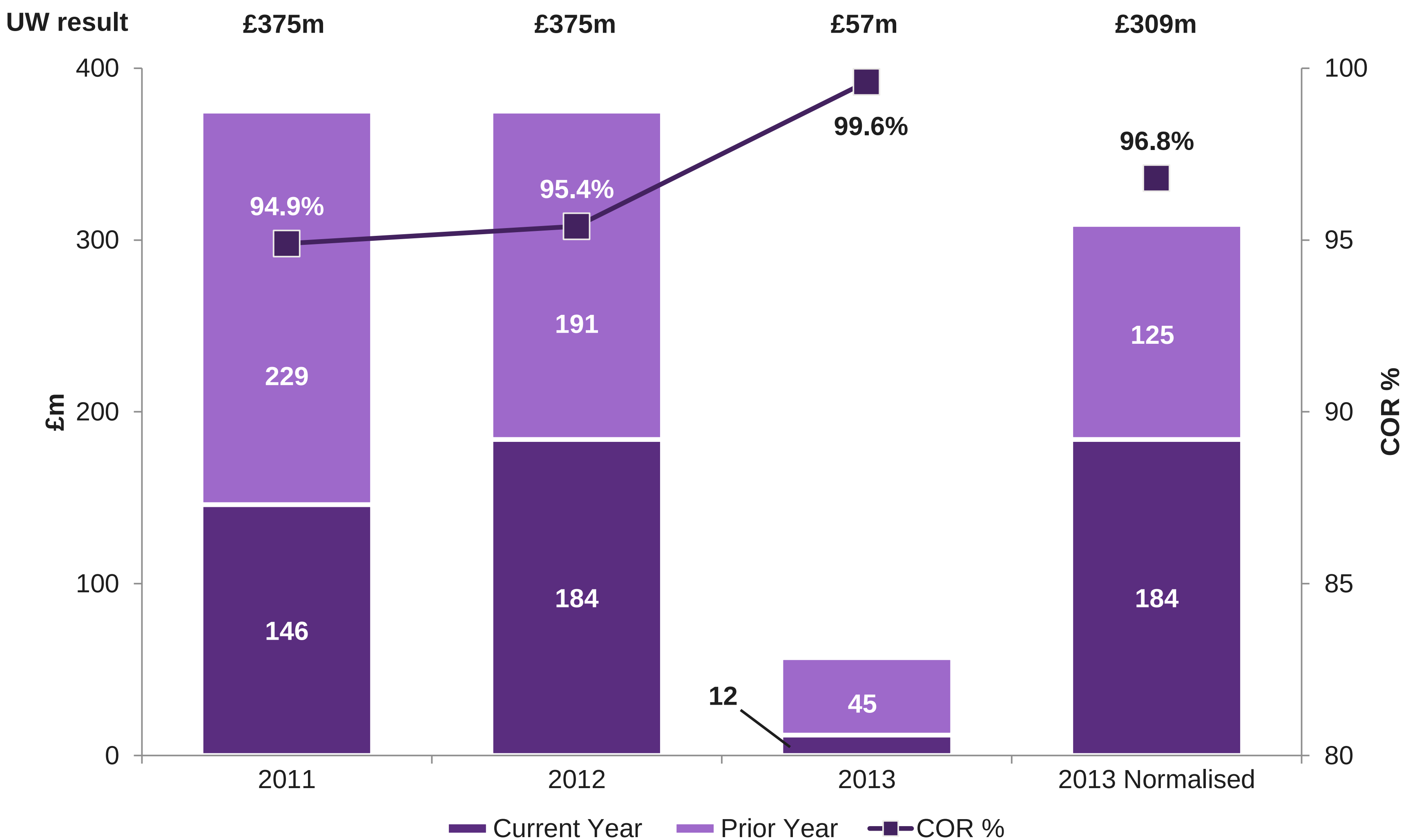
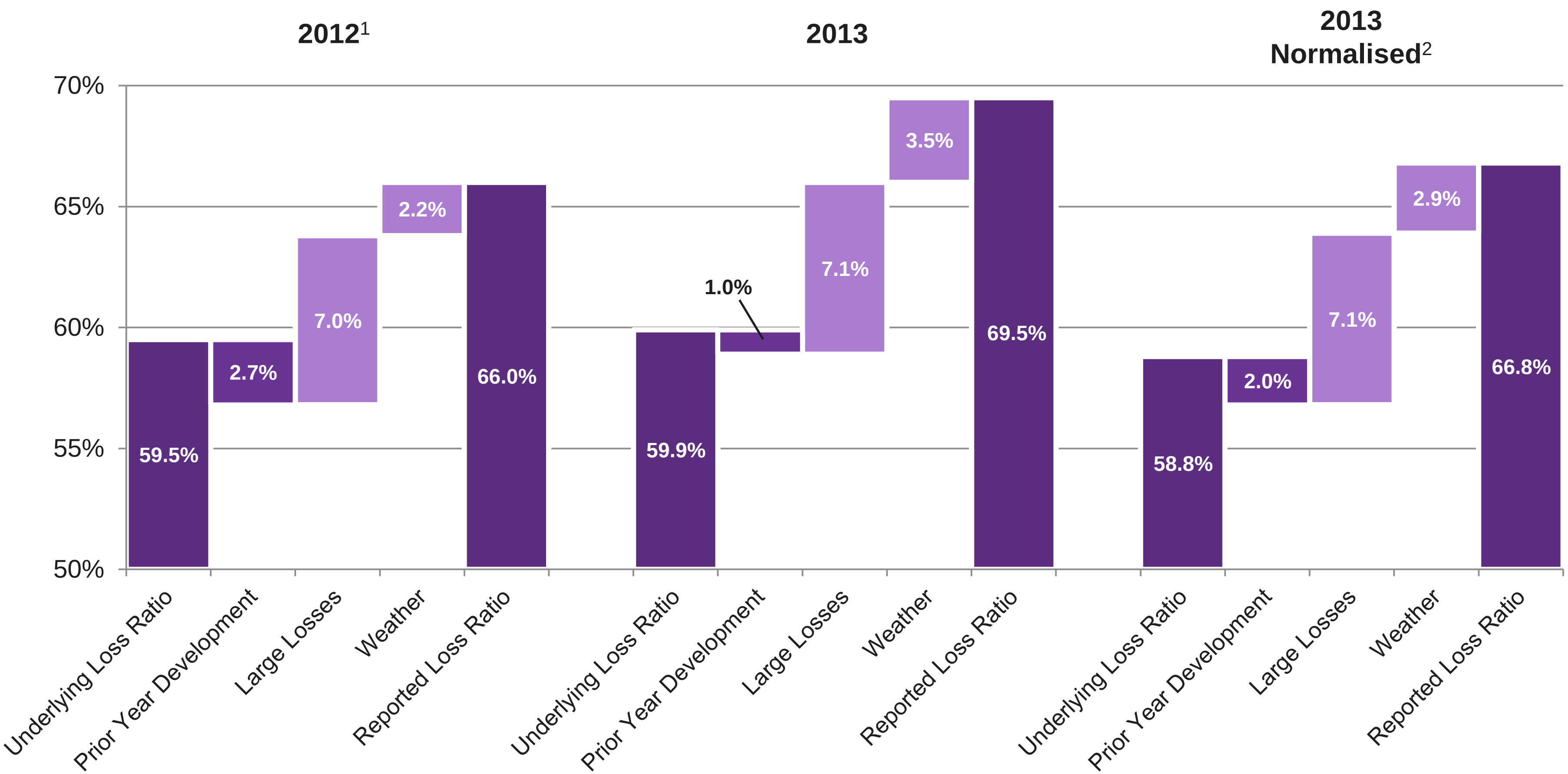
# Underwriting profit of £57m; combined ratio of 99.6%



# Underlying loss ratio remains stable




[1] Restated for changes to IAS19 "Employee Benefits"
[2] Normalised for above trend weather (adjusted to 5yr 2009-13 average of 2.9%) and impact of irregularities and reserve strengthening in Ireland

**Five year averages 2009-13:** Weather: 2.9%, Large: 7.1%

# Significant adverse weather in 2013

| Major weather events in 2013/2014 | Month | Gross cost (£m) | Net Cost (£m) |
|---|---|---|---|
| Alberta floods | June 2013 | 101 | 44 |
| Toronto floods | July 2013 | 64 | 38 |
| European wind storm (St Jude) | Oct 2013 | 36 | 36 |
| European wind storm (Xaver) | Dec 2013 | 58 | 33 |
| UK storms/flooding | Dec 2013 | 14 | 14 |
| Toronto ice storm | Dec 2013 | 12 | 12 |
| Other | | | 116 |
| **Total 2013 weather** | | | **293** |
| **2013 weather loss ratio (% of net earned premiums)** | | | **3.5%** |
| UK floods | Jan/Feb 2014 | 45-60 | 45-60 |
| Ireland and Italy floods | Jan/Feb 2014 | 20-25 | 20-25 |
| Canada winter weather | Jan 2014 | 10-15 | 10-15 |
| **Total 2014 weather to end Feb** | | | **75-100** |

Costliest and third costliest Canadian natural catastrophes on record

Net cost of £25m in Scandinavia, £5m in the UK, £6m in Group Re

Net cost of £11m in Scandinavia and £22m in the UK

Represents £52m above 5 year average (2009-13)

Challenging start to 2014 with weather c.£50m adverse to expectations for Jan/Feb (based on mid point of current range)

# Underwriting profits impacted by 2013 events

Impacted by record year for weather in Canada

In line with expectations of mid-high 80s

| | Underwriting profit | | | COR | | |
|---|---|---|---|---|---|---|
| | 2013 (£m) | 2013 Normalised[2] (£m) | 2012[1] (£m) | 2013 (%) | 2013 Normalised[2] (%) | 2012[1] (%) |
| Scandinavia | 225 | 230 | 237 | 88.1 | 87.9 | 86.6 |
| Canada | 10 | 92 | 101 | 99.3 | 94.5 | 93.6 |
| UK | 36 | 15 | 21 | 99.2 | 99.9 | 98.8 |
| WE | (262) | (66) | (29) | 137.9 | 110.5 | 105.1 |
| Emerging Markets | 46 | 38 | 33 | 96.9 | 97.6 | 96.9 |
| Group Re | 2 | - | (5) | - | - | - |
| **Group Total** | **57** | **309** | **358** | **99.6** | **96.8** | **95.6** |

Includes £60m margin build

Good profitability across all three regions

£220m loss in Ireland; good progress in Italy with £1m loss

[1] Restated for changes to IAS19 “Employee Benefits”
[2] Normalised results exclude weather losses above planning assumptions, underwriting losses in Ireland, impact of reduction in discount rate on UK long term liabilities, restructuring costs including goodwill and intangible write downs

# Continuing pressure on investment income

| (%) | 2011 | 2012 | 2013 |
|---|---|---|---|
| Total portfolio ave. yield | 3.9 | 3.6 | 3.5 |
| Duration (years) | 3.4 | 3.8 | 3.8 |

# Loss after tax of £338m, normalised profit of £304m

| £m | 2013 | Add back 2013 non recurring | 2013 Normalised[2] | 2012[1] |
|---|---|---|---|---|
| **Operating result** | **286** | **315** | **601** | **667** |
| Gains | **32** | - | 32 | 28 |
| Interest | **(117)** | - | (117) | (115) |
| Amortisation | **(42)** | - | (42) | (42) |
| Pension net interest costs | **(15)** | - | (15) | (14) |
| Solvency II costs | **(20)** | - | (20) | (32) |
| Reorganisation costs | **(356)** | 356 | - | (24) |
| Transaction costs | **(12)** | - | (12) | (20) |
| **(Loss)/Profit before tax** | **(244)** | **671** | **427** | **448** |
| Tax | **(94)** | (29) | (123) | (121) |
| **(Loss)/Profit after tax** | **(338)** | **642** | **304** | **327** |

Includes the impairment of goodwill (£110m) mainly in Poland and Argentina and software impairments (£221m) mainly in our UK business

Adjust to normalised tax rate of 29%

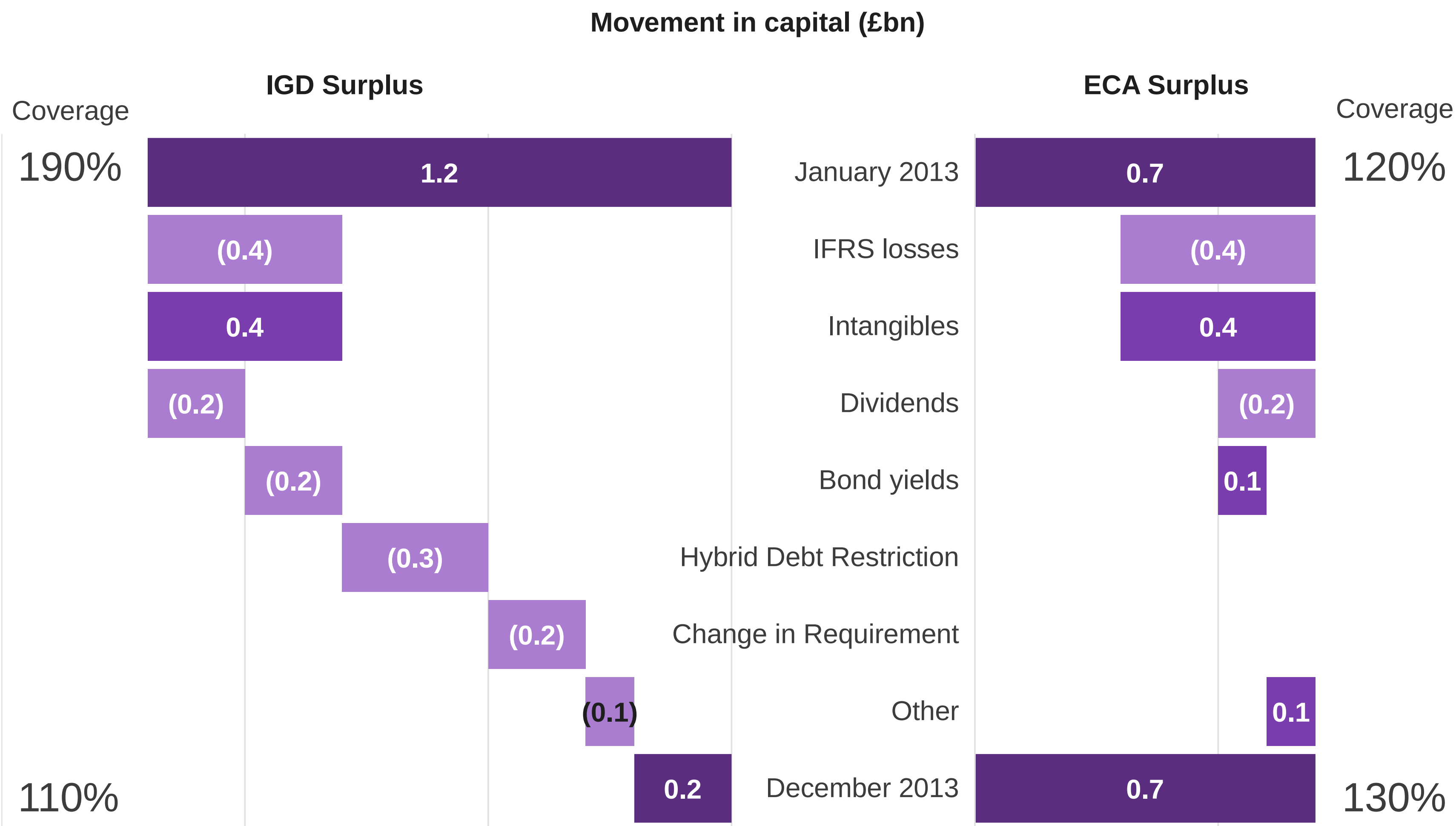
[1] Restated for changes to IAS19 "Employee Benefits"
[2] Normalised results exclude weather losses above planning assumptions, underwriting losses in Ireland, impact of reduction in discount rate on UK long term liabilities, restructuring costs including goodwill and intangible write downs

# Net assets impacted by 2013 performance

| | 2013 | | 2012[1] | |
|---|---|---|---|---|
| | NAV | TNAV | NAV | TNAV |
| **Normalised Profit After Tax** | **304** | **455** | **327** | **455** |
| Minority Interests | (9) | (9) | (7) | (7) |
| **Profit After Tax attributable to ordinary shareholders** | **295** | **446** | **320** | **448** |
| Dividends paid, including prefs, less scrip | (157) | (157) | (286) | (286) |
| **Operational movement** | **138** | **289** | **34** | **162** |
| 'One offs' in 2013 | (642) | (311) | | |
| Mark to Market movements in assets[3] | (257) | (257) | 115 | 115 |
| Pension Fund movements | 17 | 17 | (137) | (137) |
| FX movements[4] | (126) | (74) | (66) | (49) |
| Other | 13 | (135)[2] | 3 | (272) |
| **Movement as reported** | **(857)** | **(471)** | **(51)** | **(181)** |

[1] Restated for changes to IAS19 "Employee Benefits"
[2] Difference relates to intangible additions during the year
[3] Primarily relates to impact of falling yields in 2012 and rising yields in 2013 on asset values
[4] Primarily relates to strengthening of sterling vs Canadian dollar and Swedish and Danish krone during 2012 and 2013

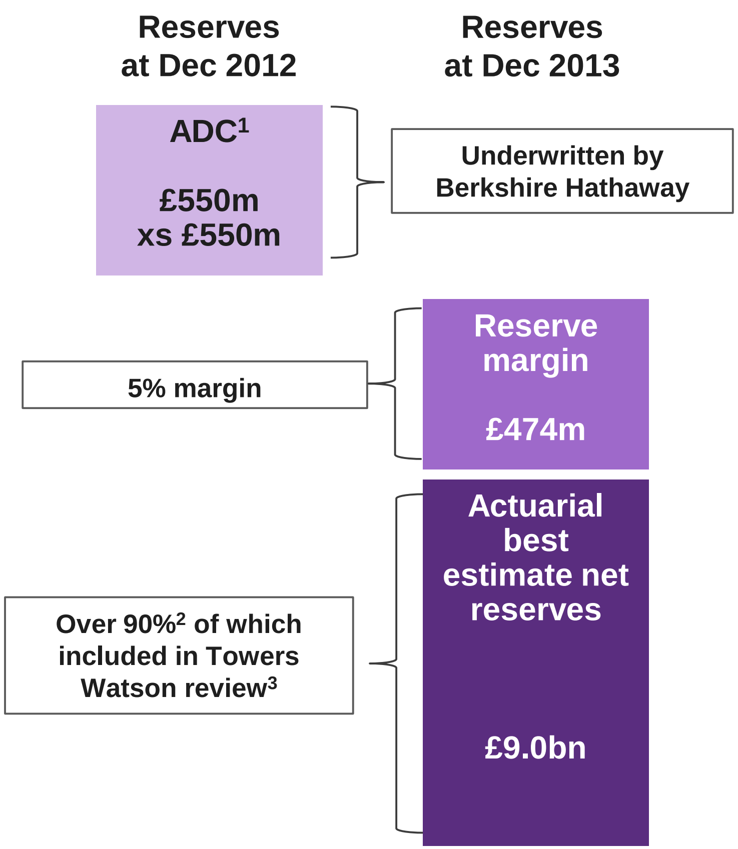
# Action needed to improve capital measures




Note: Some of the impact of bond yields on the economic capital requirement is negated by a matching change in available capital

# Improved quality and transparency of reserves

**Healthy reserve margin plus Adverse Development Cover reduces shareholder exposure to reserving risk**




- **Reserve margin**
  - 5% reserve margin above actuarial indication best estimate (2012: 4.8%)
- **Adverse Development Cover**
  - Purchased in January 2014
  - Provides £550m of cover at attachment point of £550m above RSA's actuarial indication. Includes Irish reserves and asbestos reserves. RSA retains 20% of exposure
- **Discounted reserves**
  - UK discount rate reduced from 5% to 4%
  - Reflects low reinvestment rates
- **Reserve Review**
  - Towers Watson review completed
  - TW found that "RSA's Actuarial Indication reserves net of reinsurance for the classes of business we have considered falls within a range of reserves that is regarded as reasonable by Towers Watson as a best estimate."

[1] RSA retains 20% exposure to ADC
[2] excluding Ireland and Claims Handling Provisions
[3] Towers Watson review was of reserves at 30/9/13, except for Canada where reserves for 31/12/13 were reviewed

# Underlying business generating strong cash despite poor 2013

| | Insurance Cash | Investments Cash | Total Cash Generated 2013 | Total Cash Generated 2012 |
|---|---|---|---|---|
| Scandinavia | 114 | 159 | **273** | **286** |
| Canada | 151 | 115 | **266** | **328** |
| UK | (35) | 188 | **153** | **(6)** |
| Ireland | - | 16 | **16** | **24** |
| Italy | 3 | 9 | **12** | **(70)** |
| Emerging Markets | 53 | 52 | **105** | **82** |
| Other | (82) | - | **(82)** | **24** |
| **Cash Generation** | **204** | **539** | **743** | **668** |
| Central Costs | | | (135) | (116) |
| Tax | | | (102) | (201) |
| Interest | | | (117) | (115) |
| Pension Funding | | | (73) | (73) |
| **Operating Cashflow** | | | **316** | **163** |
| Group dividends | | | (157) | (286) |
| Dividends to non controlling interests | | | (14) | (2) |
| Corporate activity and other | | | (31) | (105) |
| **Net Cashflow** | | | **114** | **(230)** |



RSA

# Realistic outlook for 2014

| | |
|---|---|
| **Premiums** | Portfolio actions and disposals mean premiums will be up to 10% lower in 2014 vs 2013 |
| **Scandinavia** | Continue to target mid to high 80s CORs |
| **Canada** | Continue to target low to mid 90s CORs |
| **UK** | Improvements to continue |
| **Emerging Markets** | Operating leverage to continue, may be affected by disposals |
| **Weather** | Increase in planning assumption to 3.0% of net earned premiums with difficult start to 2014. Potential for 2014 to be greater than 3.0% |
| **Investment income** | Expect around £430m due to falling yields, reduced equity income and FX headwinds |

# Strategy and Action Plan

# Strategy and action plan for RSA

1. **Tighten strategic focus of the Group**
   - Disposals and portfolio action
   - Concentrate resources and management effort on a coherent core
2. **Reset the quality and quantity of capital strength**
   - The bar is higher for financial institutions than before
   - Trust in risk profile and quality of financial statements a must
   - RSA is undercapitalised as a result of 2013 and prior year erosion of tangible equity ratios
3. **Improve business performance and capability to sustain it**
   - Actions, where needed, on underwriting, portfolios, expense and distribution
   - Invest in technology to drive competitive advantage
   - High performance, disciplined culture.  Build track record of delivery

**Serve customers well.  Operate with capital strength.**
**Focus on driving shareholder value**

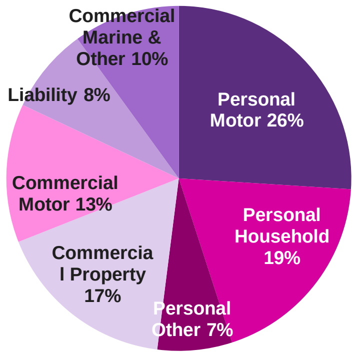
# Initial observations – RSA has the ingredients to succeed

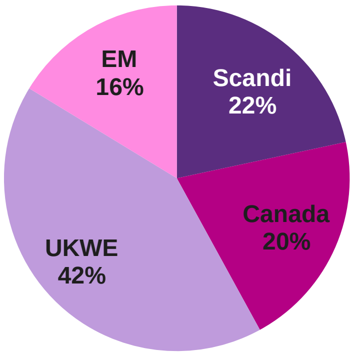
## 1 Strong Competitive Positions

Top tier positions in countries representing 86% of 2013 NWP

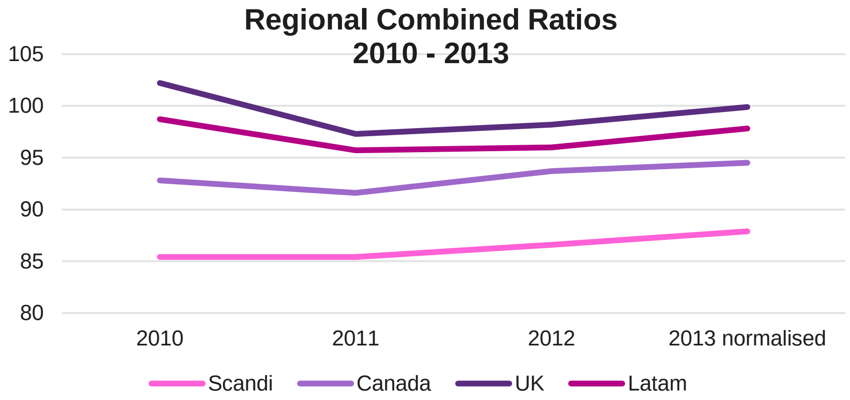

## 2 Product and Geographic Balance

2013 Net Written Premiums




## 3 Underlying Performance Solid in much of the base




## 4 Good Customer Foundations

- We have approximately 19 million customers across the world
- Highly regarded retail and commercial brands
- Strong net promoter scores across the business
- Retention rates consistently around 80%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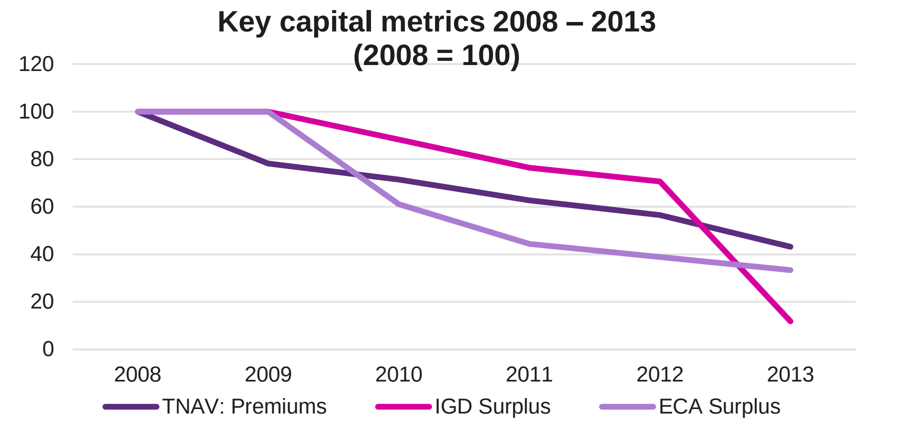
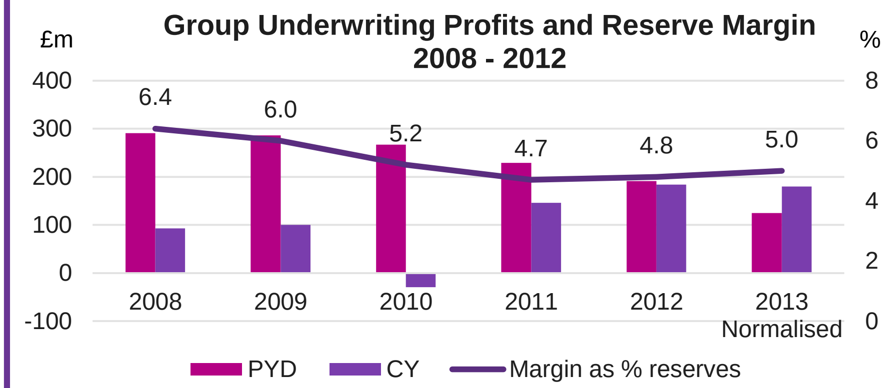
# Initial observations – RSA has some important issues to address

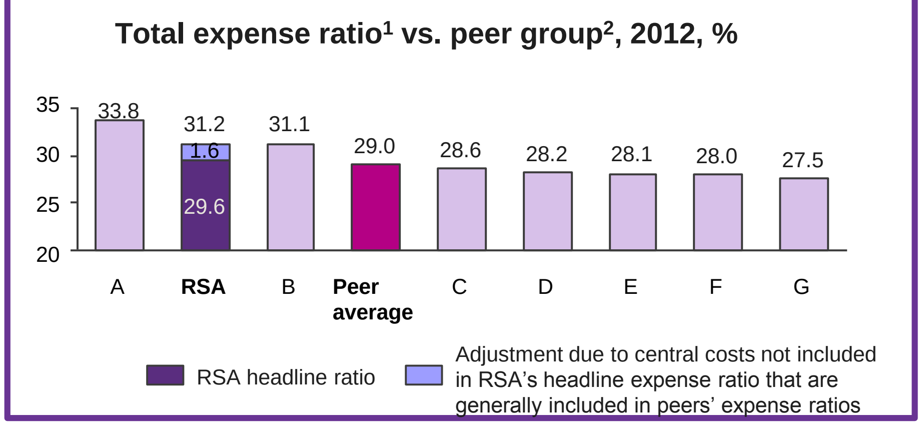
## 1 Capital Erosion




## 2 Reliance on Prior Year




## 3 Expenses



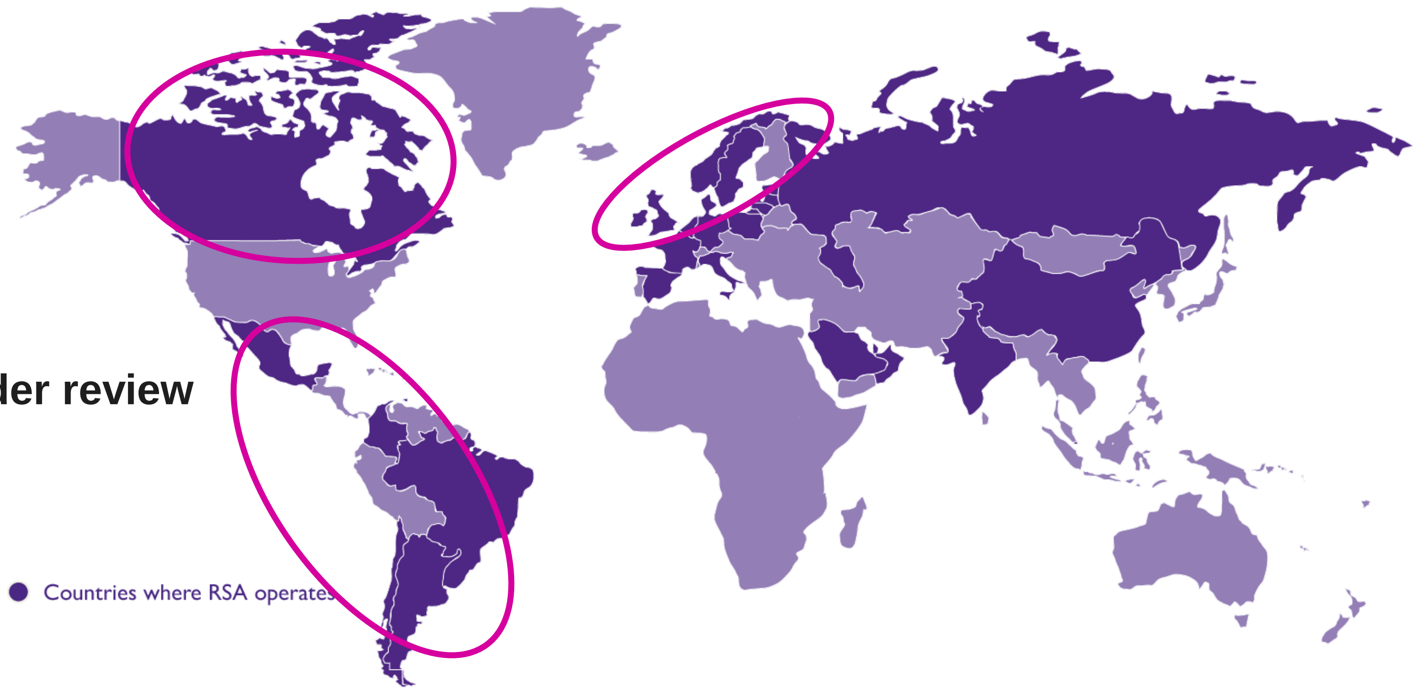

## 4 Industry challenges

- Weather trends
- Technology spend and effectiveness
- Underwriting discipline and competition
- Low yield environment

[1] Includes commissions
[2] Peer group includes: Ace, Allianz, Aviva, AXA, Generali, QBE, Zurich

# Action plan for RSA: Tighten strategic focus of Group

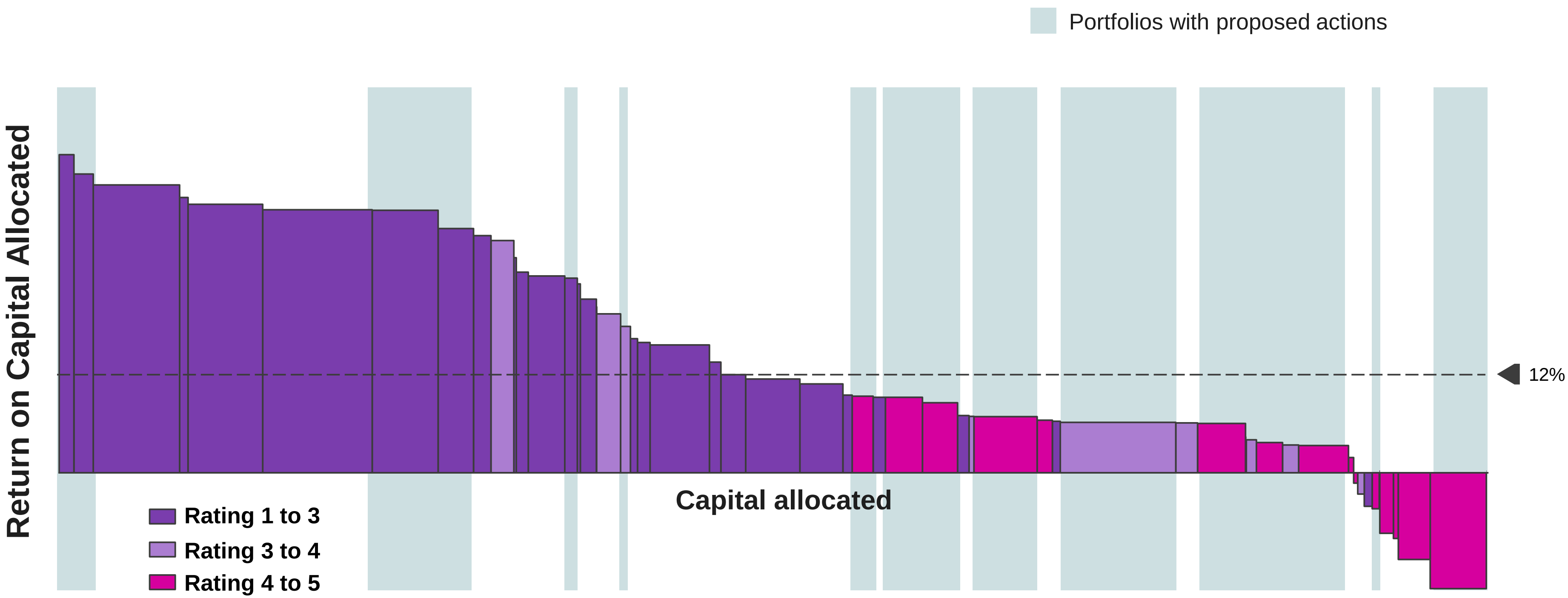
- **Core markets**
  - UK & Ireland
  - Scandinavia
  - Canada
  - Latin America
- **Other markets under review**
  - CEE
  - Asia
  - Middle East
  - Europe




- **Focus on business mix where RSA has:**
  - Strong customer appeal
  - Sustainable market leadership positions
  - Valuable business and financial benefits from diversification and balance
  - Management and financial capacity to succeed

# Action plan for RSA: Tighten strategic focus of Group

**Portfolio review:** We have largely completed a bottom up review and identified more than £400m of low return, non strategic portfolios across these businesses which we will restructure or exit by end 2014.



# Action plan for RSA: Reset the quality and quantity of capital strength

**Capital quality:** We have taken action to reduce risk and improve trust in our balance sheet

| | | |
|---|---|---|
| Asset write-downs | Reduce goodwill | £110m impairment of goodwill in Poland, Argentina, Italy and UK |
| | Reduce capitalised software | £221m write down of software, predominantly in UK |
| Increased confidence in underwriting result | Adverse Development Cover | £550m XS £550m ADC |
| | Weather pricing | Weather loss assumption increased in line with 5 year experience |
| | Increased reinsurance | Reduced retentions to £75m UK, £25m RoW |
| | Reserve margin | Reserve margin of 5% after localised reserve strengthening |
| | Towers Watson review | Best estimate reserves viewed as “reasonable” |
| | Reduced discount rate | UK liability rate reduced from 5% to 4% |
| Asset de-risking | Swedish sale and leaseback | Sale of Flemingatan, Head Office in Stockholm |
| | Equity sales | £460m of equities (79% of total) sold in Q1 YTD |

# Action plan for RSA: Reset the quality and quantity of capital strength

**Capital quantity:** We have commenced a disposal programme of non core businesses and are seeking to raise £775m through a rights issue and pass the final 2013 dividend

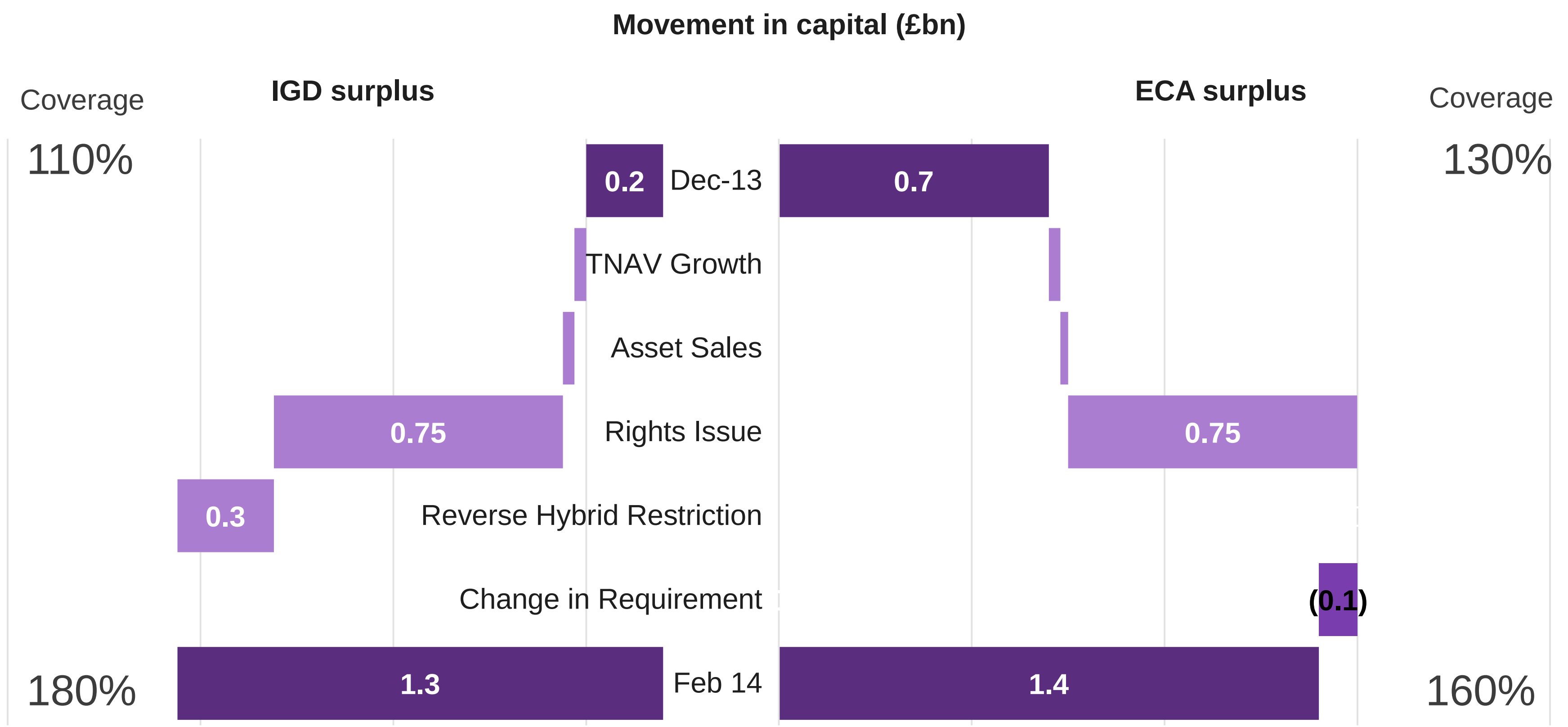
| | | |
|---|---|---|
| Portfolio review | Portfolio review | Reduce annual premiums by approximately £300m |
| | Disposals commenced | c.£300m of proceeds targeted in 2014 |
| | Further disposals to follow | To be quantified |
| Shareholder contribution | Pass 2013 final dividend | Reduce capital strain by £150m |
| | Rights issue to be launched | Raise c.£750m after fees |

# Action plan for RSA: Rights issue

- **We have announced our intention to launch a £775m rights issue**
  - Represents c.20% of current market capitalisation
  - Timetable – aim to complete and launch as soon as possible
  - Underwriting – underwriting in place
  - Meetings with existing shareholders over coming weeks
  - PRA fully informed of action plan
- **At the AGM in May, we will seek shareholder support for a 5 for 1 share consolidation**

# Action plan for RSA: Reset the quality and quantity of capital strength

Quick and decisive action will resolve strained capital measures




Actions already taken/planned (ADC, equity and property sales, dividend, rights issue) should also improve rating agency capital models



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# Action plan for RSA: Reset the quality and quantity of capital strength

## Capital balanced scorecard

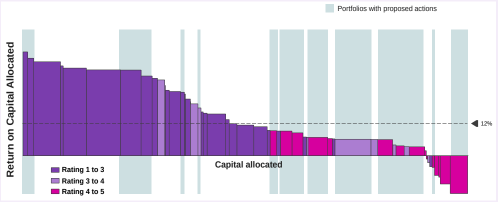
| Focus Area | Measure | Direction |
|---|---|---|
| Capital backing the business | TNAV: Premiums | 35-45% preliminary target |
| Regulatory capital | IGD surplus | Median or better vs peer group |
| | ICA surplus | In line with PRA expectations or better |
| | Solvency II | To be advised |
| Rating agency capital | Credit Rating | Target single A range rating |
| Economic capital | ECA surplus | Target 115% at 1 in 1,250 years |

# Action plan for RSA: Improve business performance and capability to sustain it

## 1. Underwriting

- Deliver revised global underwriting strategy leveraging Group wide pricing and portfolio tools, reinsurance and underwriting centres of excellence.
- Implement global claims strategy focusing on:
  - Customer service;
  - Loss prevention / mitigation;
  - Efficient processes and automation;
  - Enhancing groupwide claims expertise sharing;
- Build central data and analytics capabilities e.g. telematics centre of excellence.

## 2. Portfolio




- Focus on driving portfolio return on capital.
- Exit from portfolios with significant underperformance.
- Aggressive rating actions where required.
- Decile analysis to re-focus on profitable parts of portfolios.

## 3. Distribution

**Brokers**
- Build on excellent relationships with major global brokers.
- Focus on profitable broker relationships.

**Direct**
- Focus on core direct brands.
- Leverage digital expertise into emerging online markets in Canada and Scandi.

**Affinity**
- Seek new and extend existing long term affinity relationships across footprint.
- Significant opportunities in Latam.

**More details to come at Interim Results 7 August 2014**

# Action plan for RSA: Improve business performance and capability to sustain it

## 4. Expenses

- **UK -** expense base currently above market. Significant opportunity for expense reduction but will require investment in business simplification and systems.
- **Group -** reduce overheads.
- **Scandi -** significant investment already made. Benefits of new platform to be delivered.
- **Canada -** tighten expense focus and increase technology usage.
- **Latam -** expense increase capped at 60% of premium increase to drive operating leverage.

## 5. Technology

- Capability uplift and optimisation of delivery by right-sizing regional IT organisations.
- Enhanced customer solutions through reduced technology complexity.
- Simplification of infrastructure and application landscape.
- Consolidate supplier relationships and standardise usage of commodity software.

## 6. People

- Invest in developing our technical and future talent.
- Upgrading and investing in our leadership capability.
- Maintaining our focus on employee engagement.
- Aligning the performance of our people with delivering for our customers.
- Delivering against our diversity and inclusion targets.

**More details to come at Interim Results 7 August 2014**

# Dividend

- **2013 Final Dividend**
  - The impact of 2013 results is such that a final dividend cannot be justified.

- **Future dividend policy**
  - Medium term goal is 40-50% payout ratio.
  - Progression to target payout ratio determined by:
    - Successful execution of our plans;
    - Evolving regulatory and rating agency landscape;
    - Market forces.
  - Any 2014 interim dividend likely to be modest.

# RSA in the future

- **Once complete, this will create a business which is….**
  - Prudently managed and reserved
  - Strongly capitalised and more transparent
- **We will focus on fewer markets…..**
  - Where we can achieve market leading positions
- **We will be more efficient.…**
- **….and set up to deliver significant shareholder value….**
  - Improving returns on a growing tangible net asset value
  - Medium term target of 12-15% ROTE
  - Sustainable, progressive dividend policy

# Strategy and action plan for RSA

1. **Tighten strategic focus of the Group**
   - Disposals and portfolio action
   - Concentrate resources and management effort on a coherent core
2. **Reset the quality and quantity of capital strength**
   - The bar is higher for financial institutions than before
   - Trust in risk profile and quality of financial statements a must
   - RSA is undercapitalised as a result of 2013 and prior year erosion of tangible equity ratios
3. **Improve business performance and capability to sustain it**
   - Actions, where needed, on underwriting, portfolios, expense and distribution
   - Invest in technology to drive competitive advantage
   - High performance, disciplined culture. Build track record of delivery

**Serve customers well. Operate with capital strength.**
**Focus on driving shareholder value**

# Appendix

# Reconciliation of reported result to normalised result

| £m | Reported | Above trend weather[1] | Ireland[2] | UK discount rate change[3] | Reorganisa-tion costs[4] | Tax[5] | Normalised |
|---|---|---|---|---|---|---|---|
| NWP | 8,664 | | | | | | 8,664 |
| **UW result** | **57** | **52** | **200** | | | | **309** |
| Investment income | 493 | | | | | | 493 |
| Discount unwind | (160) | | | 63 | | | (97) |
| **Investment result** | **333** | | | | | | **396** |
| **Insurance result** | **390** | | | | | | **705** |
| Other activities | (104) | | | | | | (104) |
| **Operating result** | **286** | | | | | | **601** |
| Gains | 32 | | | | | | 32 |
| Interest | (117) | | | | | | (117) |
| Amortisation | (42) | | | | | | (42) |
| Pension net interest | (15) | | | | | | (15) |
| Solvency II | (20) | | | | | | (20) |
| Reorganisation costs | (356) | | | | 356 | | - |
| Transaction costs | (12) | | | | | | (12) |
| **PBT** | **(244)** | | | | | | **427** |
| Tax | (94) | | | | | (29) | (123) |
| **PAT** | **(338)** | | | | | | **304** |

[1] Adjust weather from 3.5% to the 5 year average of 2.9% (2009-13)
[2] Add back Ireland irregularities and reserve strengthening
[3] Add back one-off impact of discount rate change in UK from 5% to 4%
[4] Relates mainly to impairment of goodwill in Poland and Argentina, and Impairment of software mainly in the UK
[5] Adjust to normalised tax rate of 29%



RSA

# Ongoing positive prior year development

## Loss Development*

| £m | Estimate of cumulative claims per Accident Year (AY) | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Prior | 04 | 05 | 06 | 07 | 08 | 09 | 10 | 11 | 12 | 13 |
| End of accident year | 8,357 | 2,313 | 2,484 | 2,511 | 2,611 | 2,671 | 2,551 | 2,705 | 2,967 | 3,096 | 3,192 |
| 1yr later | 8,746 | 2,178 | 2,355 | 2,493 | 2,607 | 2,673 | 2,589 | 2,731 | 2,961 | 3,096 | |
| 2yrs later | 8,679 | 1,987 | 2,266 | 2,396 | 2,579 | 2,665 | 2,560 | 2,708 | 2,939 | | |
| 3yrs later | 9,003 | 1,901 | 2,191 | 2,310 | 2,515 | 2,635 | 2,535 | 2,738 | | | |
| 4yrs later | 8,863 | 1,832 | 2,107 | 2,256 | 2,469 | 2,618 | 2,558 | | | | |
| 5yrs later | 8,691 | 1,783 | 2,042 | 2,233 | 2,453 | 2,591 | | | | | |
| 6yrs later | 8,584 | 1,746 | 2,016 | 2,202 | 2,453 | | | | | | |
| 7yrs later | 8,450 | 1,701 | 1,992 | 2,176 | | | | | | | |
| 8yrs later | 8,304 | 1,683 | 1,966 | | | | | | | | |
| 9yrs later | 8,215 | 1,669 | | | | | | | | | |
| 10yrs later | 8,216 | | | | | | | | | | |

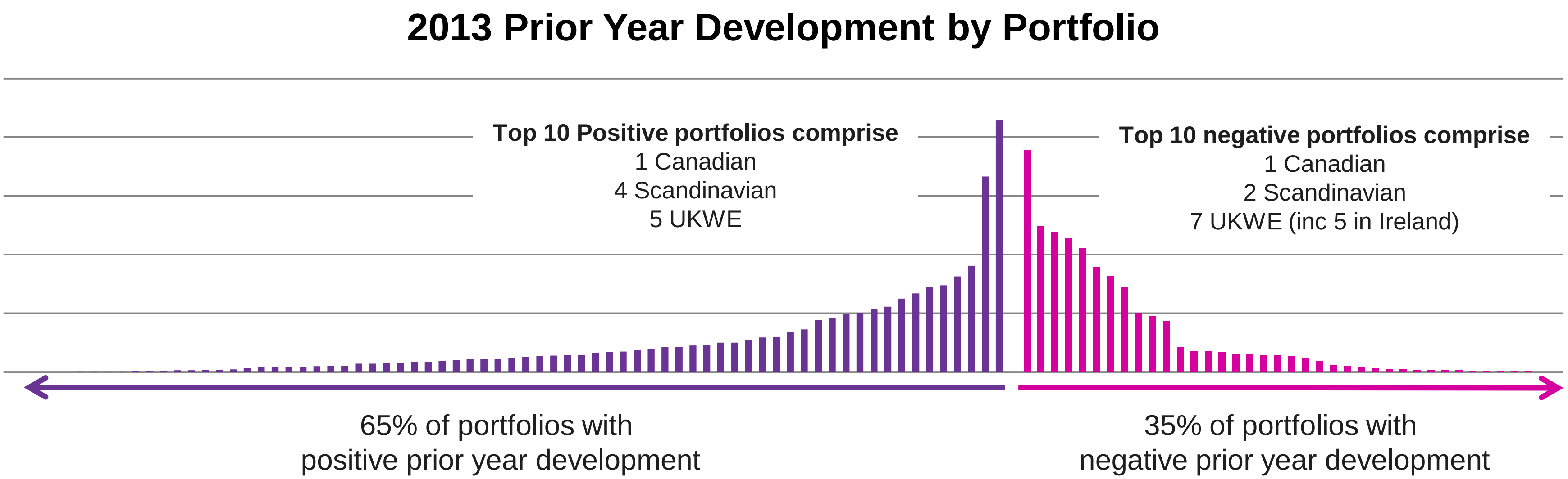
2012 estimate unchanged

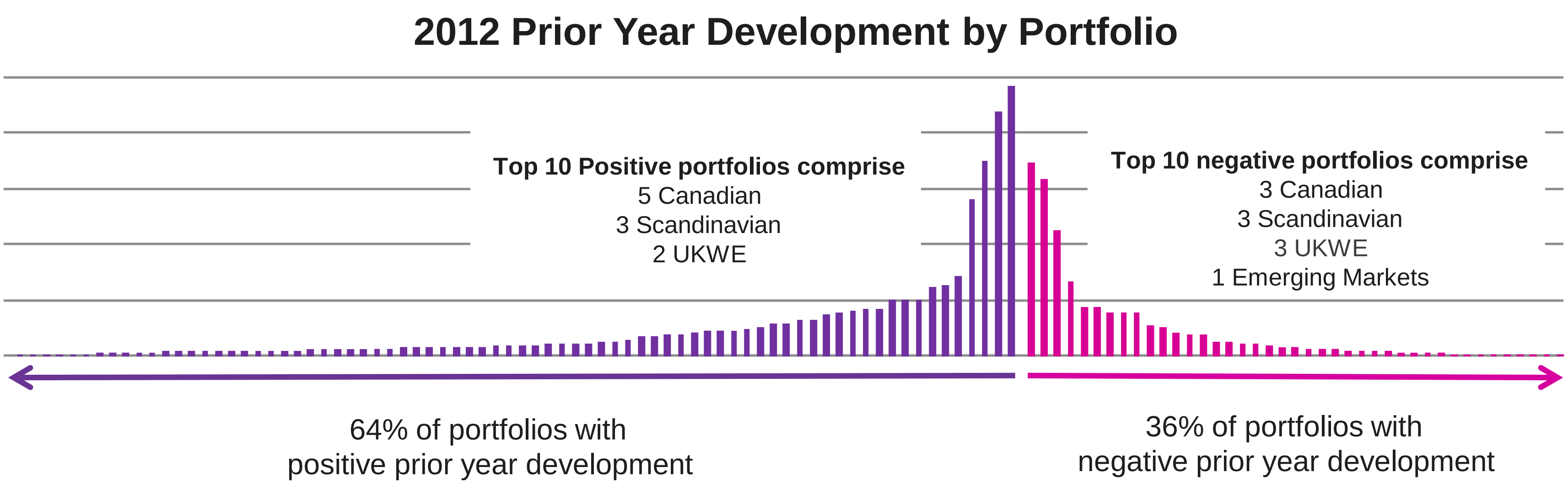
Impacted by strengthening in Ireland

Continued positive run-off from the older years

* Movement in estimate of cumulative claims

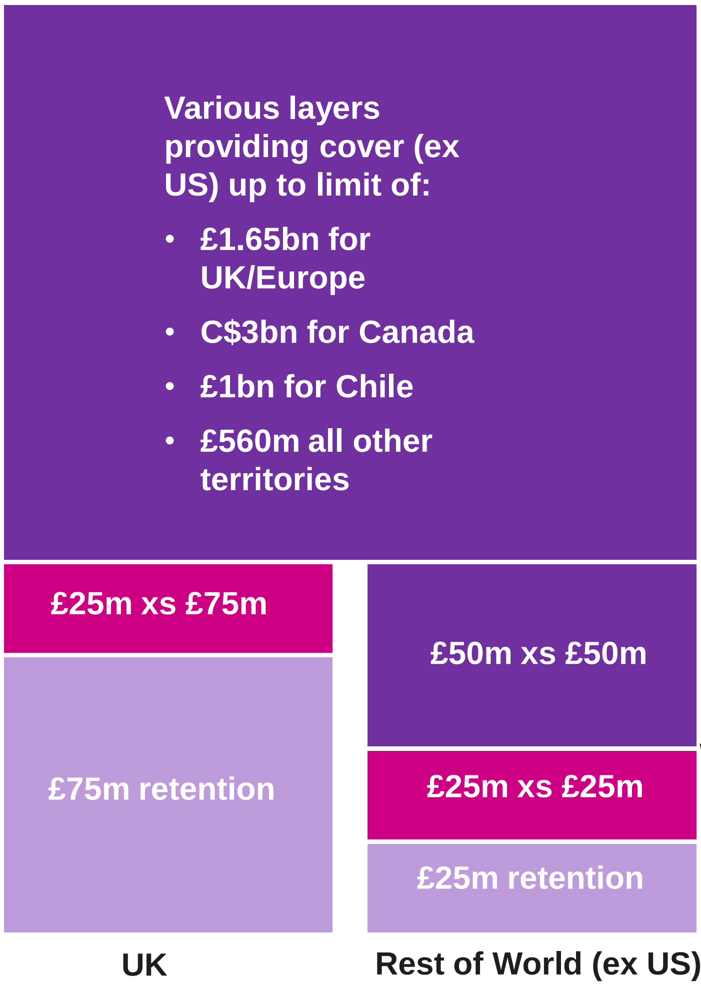
# Prior year development from across the portfolio




**Not dependent on any one portfolio for ongoing PYD**

# Prudent 2014 Cat reinsurance structure

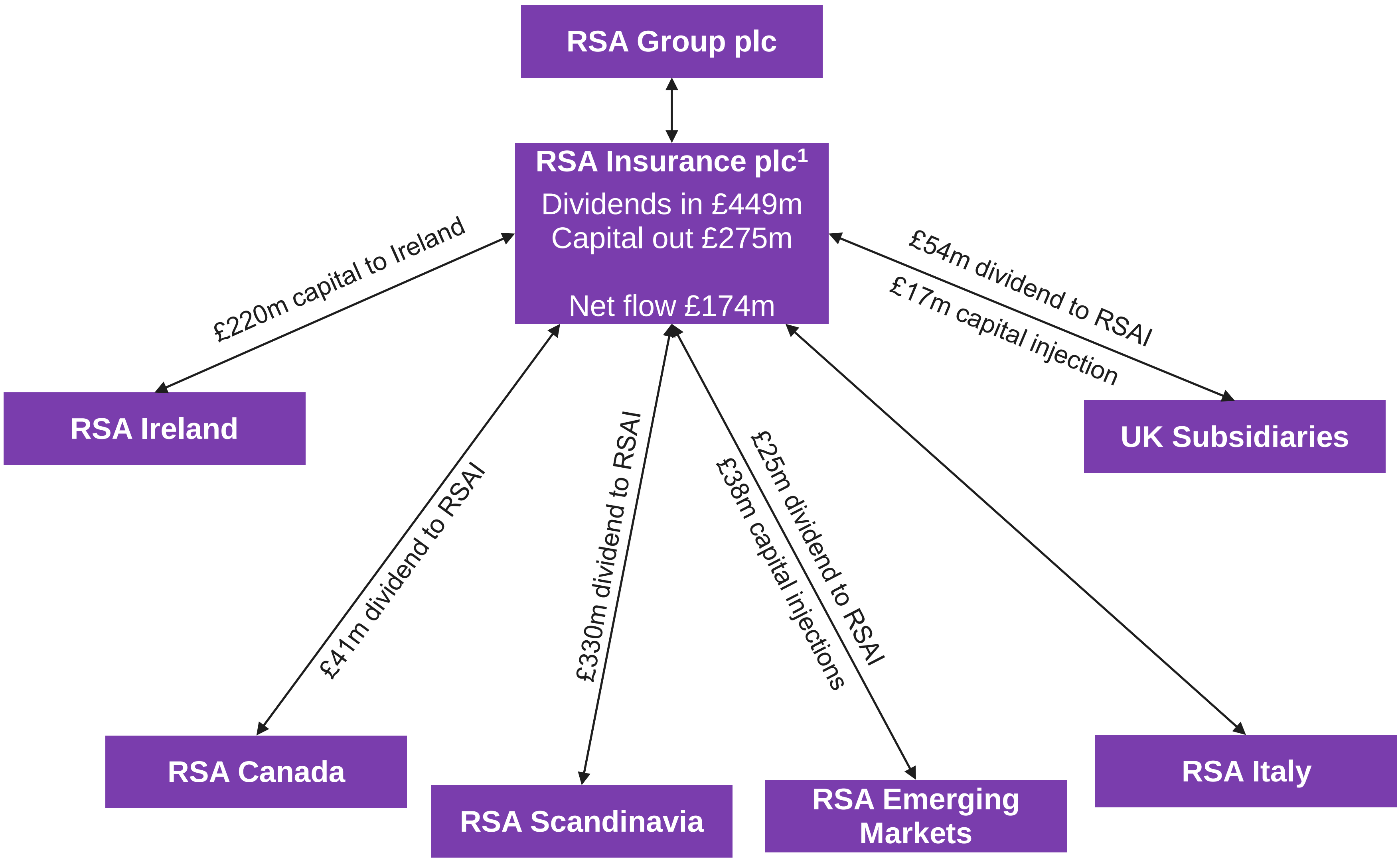



- 2014 reinsurance renewal helped by recent profitability of the worldwide Catastrophe reinsurance market and record capital levels in the sector.
- Our 2014 Catastrophe programme delivers lower retentions for all our businesses:
  - UK Cat retention reduced to £75m from £100m
  - Canada/US retention reduced to C$30m from C$75m
  - Non-UK retention reduced to a maximum of £25m from £50m
- These changes will make our earnings more resilient against Catastrophe losses and provide Capital benefit.

**Note: Canada has additional protection from an underlying local treaty providing a limit of C$500m with a retention of C$30m**

Note: simplified structure shown above

# Capital flows in 2013




[1] RSA Insurance plc is the UK trading entity and the holding company for the subsidiaries shown

# Changes to asset allocation

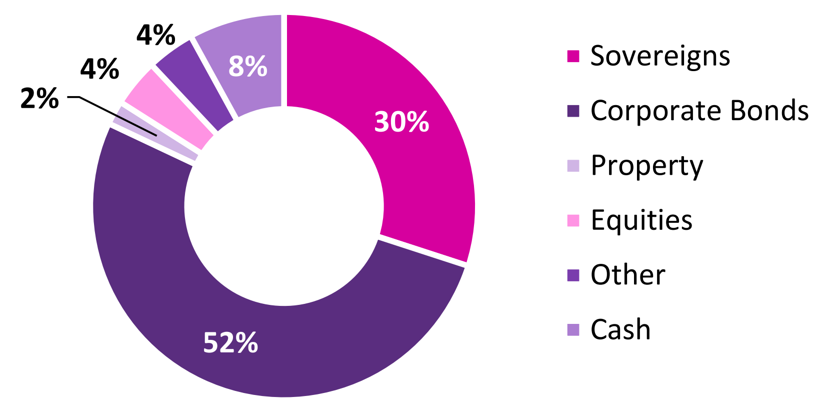
**Swedish occupied property**

- Sale and leaseback of Stockholm office signed on 3 January 2014.
- Net gain and TNAV increase of c.£30m

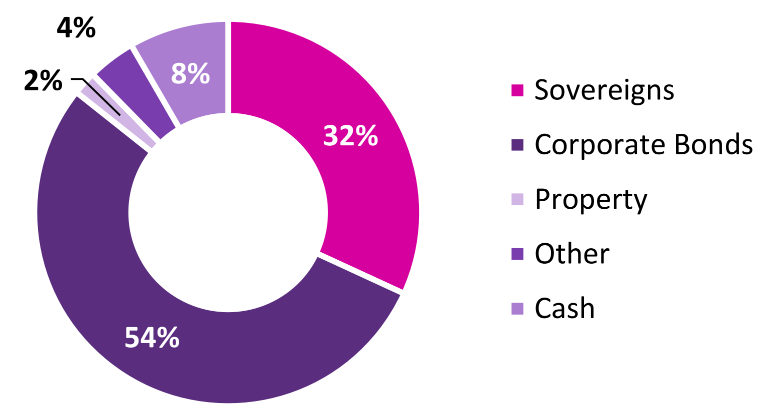
**Equity sales**

- Commenced 1 January 2014
- c.£460m (79%) complete at 26 February 2014.
- Remaining equities are either Swedish REITS which will be retained or strategic/unlisted stakes which will take more time to sell.
- Proceeds to be invested in cash/bonds.
- Capital benefit of £80m.

**31 December 2013 Asset Allocation**




**Estimated 26 February 2014 Asset Allocation**



# Towers Watson – Full Qualitative Summary

The scope of Towers Watson's work was to independently review RSA's internal Actuarial Indication estimates of the net of reinsurance unpaid claims reserves of its global business excluding that of its Ireland subsidiary as at 30 September 2013 except for the Canadian business and US Adverse Development Cover which was reviewed as at 31 December 2013.

Towers Watson concludes that RSA's internal Actuarial Indication estimates of the net of reinsurance unpaid claims reserves for the business reviewed is reasonable in that it falls within a range of estimates that is regarded as reasonable by Towers Watson as a best estimate.

- Towers Watson's review of non-life reserves as at 30 September 2013 (and as at 31 December 2013 for the Canadian business and US Adverse Development Cover) covered over 90% of the in scope net reserves for non-life unpaid claims, based on the internal Actuarial Indication estimates. The review dates reflect the underlying Actuarial Indication analysis used by RSA to determine its booked reserves in conjunction with a roll-forward which was beyond the scope of Towers Watson's review.
- Reserves are undiscounted for the time value of money, with the exception of those held in relation to claims involving annuity payments.
- The results shown in this presentation are based on a series of assumptions as to the future. It should be recognised that actual future claim experience is likely to deviate, perhaps materially, from Towers Watson's estimates. This is because the ultimate liability for claims will be affected by future external events; for example, the likelihood of claimants bringing suit, the size of judicial awards, changes in standards of liability, and the attitudes of claimants towards the settlement of their claims.
- Towers Watson has not anticipated any extraordinary changes to the legal, social, inflationary or economic environment, or to the interpretation of policy language, that might affect the cost, frequency, or future reporting of claims. In addition, Towers Watson's estimates make no provision for potential future claims arising from causes not substantially recognised in the historical data (such as new types of mass torts or latent injuries, terrorist acts), except in so far as claims of these types are included incidentally in the reported claims and are implicitly developed. For example, RSA has exposure to liabilities in Argentinian Pesos and future payments are subject to significant inflation and exchange rate change risks.
- In many territories, court awards for future losses in respect of injury claims are based on a number of factors including a discount rate (such as the Ogden Tables in the UK). Towers Watson's estimates are based on current discount rates used for assessing the value of such claims and do not allow for changes in these rates, consistent with RSA's internal Actuarial Indication estimates.
- Towers Watson's analysis was carried out based on data as at the valuation date of 30 September 2013 (with the exception of the Canadian business and US Adverse Development Cover which was based on data as at 31 December 2013). Towers Watson's analysis may not reflect development or information that became available after the valuation date and Towers Watson's results, opinions and conclusions presented herein may be rendered inaccurate by developments after the valuation date. For example, we have not reviewed any reserves in relation to UK floods or Scandinavian storms that occurred after the valuation date.
- RSA has asbestos, environmental and other health hazard (APH) exposures plus noise induced hearing loss (deafness) exposures which are subject to greater uncertainty than typical accident or event loss exposures. Due to inherent uncertainty, the actual losses could prove to be significantly different to the estimated loss amounts for these claims.
- RSA has exposure to annuity-type claims which are dependent on the longevity of the claimants, including (but not exclusively) Periodical Payment Order claims in the UK and Workers Compensation and Personal Accident claims in Scandinavia. These claims are very long-tailed in nature and are subject to additional risks beyond those normally associated with non-life liabilities, including investment risk, longevity risk and indexation risk, and, for Scandinavian business, revision risk; due to these inherent uncertainties, the actual losses could prove to be significantly different to the estimated loss amounts for these claims.
- The estimates are in pounds sterling based on exchange rates provided by RSA as at 30 September 2013 (and as at 31 December 2013 for the Canadian business and US Adverse Development Cover). A substantial proportion of the liabilities is denominated in foreign currencies. To the extent that the assets backing the reserves are not held in matching currencies, future changes in exchange rates may lead to significant exchange gains or losses.
- Towers Watson has assumed that all of RSA's reinsurance protection will be valid and collectible.
- Towers Watson has not attempted to determine the quality of the current asset portfolio of RSA, nor has Towers Watson reviewed the adequacy of the balance sheet provisions except as otherwise disclosed herein.
- The scope of Towers Watson's analysis does not include comment on capital requirements. In particular Towers Watson has not investigated the level of capital required to protect RSA from adverse claims experience.
- Towers Watson's estimates are not intended to represent an opinion of market value and should not be interpreted in this manner.

In its review, Towers Watson has relied on audited and unaudited financial information and data supplied to us by RSA and its subsidiaries, including information given orally. Towers Watson relied on the accuracy and completeness of this information without independent verification. For certain classes of business where significant legislative changes or significant changes to policy terms and conditions have occurred, RSA has provided adjusted historic data as if current legislation or current policy terms and conditions were in force. Towers Watson has relied on the interpretation of the changes and quantum of adjustments made by RSA without independent verification. For Accidental Damage salvage and subrogation recoveries within the UK motor classes, Towers Watson has used the RSA internal estimates of ultimate recovery rates within its projections.

Except for any agreed responsibilities Towers Watson may have to RSA, Towers Watson does not accept nor assume any duty of care or responsibility, and does not accept any liability to any other party, whether in tort (including negligence) or otherwise for any damages or loss suffered by any such party, arising out of this commentary or references by RSA to Towers Watson's work as set out in this document or the fact that Towers Watson has carried out such work.