NEWS

RSA Insurance Group plc
Q1 2016 Trading Update

5 May 2016

RSA's underwriting results were good in Q1 with operating profits up strongly as a consequence.

Headline figures benefited from benign weather but underlying results also continue the improving trends visible in 2015.

Stephen Hester, RSA Group Chief Executive, commented:

"The year has started well for RSA. A streamlined and focused business model is already proving its worth, channelling our self-improvement measures more effectively to drive performance gains. Higher profits are underpinned by better attritional loss ratios and falling costs as planned. More volatile underwriting items have also gone our way this quarter.

"We have laid out ambitious plans to transform operating performance, and so closing gaps to 'best in class' peers. We are 'on-track' in this journey, though with much still to do.

"The external environment is challenging, characterised by slow growth, competition and volatile financial markets. Hence our reliance on self-help as the route to a focused, stronger and better RSA."

Update on strategy and performance improvement

- Disposals of our businesses in Brazil, Colombia and Russia closed successfully in Q1, while Chile and Argentina also closed in April. The two remaining Latin American disposals should complete by the middle of the year.
- Our many performance improvement initiatives are proceeding well. These cover:
  - Customer service, sales effectiveness and digitisation;
  - Pricing and underwriting improvements;
  - Expense reduction in line with published targets;
  - Technology improvements in infrastructure, policy administration, claims and pricing.

Trading update

Market conditions

- Insurance market conditions are broadly unchanged from 2015. Slow growth and strong competition drive sharp price/volume trade-offs, in line with our expectations overall.
- Financial market volatility was elevated in Q1. Notable were significant intra-quarter movements in equities and in credit spreads which widened significantly during the first two months, before partially retracting in March (and narrowing further still in April). Government bond yields fell across our core markets.
- Sterling depreciated c.7% against our major international currency blocks but has since strengthened somewhat and remains potentially volatile as the UK's EU referendum date comes closer.

Premiums (further detail available on page 4)

- Group net written premiums flat[1] versus prior year reflecting the impact of disposals.
- Core Group net written premiums up 8%[1], though slightly down ex-Group Re movements. Underlying trends in line with our expectations overall, with UK/Ireland ahead of plan, Canada in line, and Scandinavia behind, due primarily to temporary factors.

Profitability

- Operating profits and net attributable profits for Q1 were strong and ahead of our expectations.
- The Group delivered a good Q1 underwriting performance with the UK & Ireland, Canada and Scandinavia each ahead of the same period last year and ahead of our plan.
- The **attritional loss ratio** for Q1 2016 showed year-on-year improvement across all of our core regions.
- Q1 **weather event costs** for the Core Group were £23m which represents 1.5% of net earned premiums (Q1 2015: 2.3%; planning assumption: c.3.0%). The overall Group weather ratio was 1.5% (Q1 2015: 2.6%).
- **Large losses** for the Core Group were £142m for Q1 representing 9.5% of net earned premiums (Q1 2015: 8.5%; planning assumption c.8.5%). The overall Group large loss ratio was 8.5% (Q1 2015: 7.5%).
- During Q1 we saw positive **prior year profit** emergence ahead of planned levels, though likely to remain volatile on a quarterly basis.
- Expense reductions and our transformation programme are on track.
- We target continuing improvements to 'normalised' underwriting profitability in the remainder of the year. Overall results, as always, will be subject to weather/large loss volatility and prior year reserve movements.
- Investment performance is in line with our forecasts for 2016 (of c.£330m of income and c.£55m of discount unwind).
- Below operating profits, Q1 movements were broadly as flagged – the overall impact of business disposals comprised tangible gains of £11m (capital accretive), and intangible and FCTR[2] recycle charges of £27m (non-cash/non-capital); and there were planned charges reflecting the progress of our cost/restructuring activities.

Capital

- Tangible equity up 9% to £3.1bn (31 Dec 2015: £2.8bn) driven by volatility in FX and interest rate/spreads, as well as disposals and net income. Tangible net asset value per share 303p. Some of the market gains have unwound in April.
- Solvency II capital surplus at 31 March 2016[3] of c.£1.0bn with coverage of 150% (31 Dec 2015: 143%). The increase relates to first quarter profits including a benefit from disposal proceeds of 3%, and favourable FX movements, partly offset by adverse mark-to-market impacts.
- Movement in pension surplus during the quarter was modestly positive. In April, spread tightening has more than reversed this movement, moderately reducing the overall capital ratio gains YTD.

[1] *At constant exchange rates.*
[2] *Foreign Currency Translation Reserve*
[3] *The Solvency II capital position at 31 March 2016 is estimated*

Supplementary information

Net written premiums

	3 Months 2016 £m	3 Months 2015[1] £m	Change as reported %	Change at constant fx %
Scandinavia	581	611	(5)	(7)
Canada	209	214	(2)	2
UK & Ireland	635	622	2	1
Group Re[2]	32	(103)	131	131
Total Core Group	**1,457**	**1,344**	**8**	**8**
Discontinued & non-core[3]	118	247	(52)	(46)
Total Group	**1,575**	**1,591**	**(1)**	**-**

[1] *Q1 2015 net premiums re-presented to show premiums from Latin America as part of discontinued & non-core operations.*
[2] *Group Re premiums in Q1 2015 included £139m incurred for the purchase of a new 3 year Group aggregate reinsurance cover.*
[3] *Discontinued & non-core includes Italy, Hong Kong, Singapore, China, India, Latin America, Middle East and Russia.*

Scandinavia

- Growth in Sweden is offset by lower Danish premiums due to the transfer of the Marine portfolio to the UK and the non-repeat of a large multi-year renewable energy deal won in Q1 2015, together with slow market conditions overall.
- Norway premiums impacted by non-renewal of a large affinity motor contract.
- We expect the Q1 premium trends to improve during the remainder of the year as the temporary factors unwind.

Canada

- The portfolio actions of the last two years are largely complete; premiums have now stabilised with Q1 trends largely as expected.
- Continue to see good rate increases in Household, whilst Personal Motor rate reductions are now moderating.
- Commercial net written premiums benefited from lower reinsurance costs due to increase in retentions for 2016.

UK & Ireland

- UK Personal premiums were broadly stable versus prior year excluding the impact of our withdrawal from the broker motor channel.
- UK Commercial lines saw modest growth over prior year with good performances in Specialty, SME and Marine (which benefited from the portfolio transfer from Denmark, discussed above).
- Ireland also saw premium growth due to strong pricing increases as part of the turnaround plan.

Investment portfolio

	£m
31 Dec 2015	**12,978**
Foreign exchange	615
Mark-to-market	112
Other movements	146
Transfer to assets held for sale	-
31 Mar 2016	**13,851**

The investment portfolio grew by 7% in the quarter to £13.9bn, largely driven by the weakening of Sterling. The composition and credit quality of the portfolio remains broadly unchanged.

The average book yield on the total portfolio was 2.8% (2015: 2.9%), with average yield on the bond portfolios of 2.7% (2015: 2.8%). Reinvestment rates in the Group's major bond portfolios during Q1 2016 were approximately 1.6%.

Average bond duration is 4.1 years (31 December 2015: 4.0 years).

Balance sheet unrealised gains of £571m (pre-tax) increased by £156m during the quarter (31 December 2015: £415m).

Shareholders' funds

		Shareholders' funds	TNAV
31 Mar 2016	**£m**	**3,926**	**3,087**
	pence/share	**373**	**303**
31 Dec 2015	£m	3,642	2,838
	pence/share	346	279

Tangible net asset value increased by £249m (9%) in the first quarter. The movement was mainly driven by profits (including disposal gains) and positive foreign exchange and mark-to-market movements. Tangible net asset value per share increased by 24p to 303p.

Foreign exchange rates

Foreign exchange rates used in this statement are:

	Average rate			Closing rate		
	Q1 2016	Q1 2015	% change	**31 Mar 2016**	31 Dec 2015	% change
Canadian Dollar	**1.97**	1.88	5	**1.86**	2.05	(9)
Danish Krone	**9.70**	10.03	(3)	**9.40**	10.13	(7)
Swedish Krona	**12.13**	12.63	(4)	**11.64**	12.47	(7)
Euro	**1.30**	1.35	(4)	**1.26**	1.36	(7)

Bond yields

Five year government bond yields (source: Bloomberg):

%	**31 Mar 2016**	31 Dec 2015	31 Dec 2014
UK	**0.8**	1.3	1.2
Denmark	**0.0**	0.3	0.1
Sweden	**-0.1**	0.3	0.1
Canada	**0.7**	0.7	1.3

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Conference call for analysts and investors

A conference call for analysts and investors will be held at 9:00am on Thursday 5 May to discuss the Q1 Trading Update. Participants should call +44 (0)808 237 0035 (toll free) or +44 (0)20 3427 0662. A recording of the call will be available via the company website (www.rsagroup.com).

Important disclaimer

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