NEWS

RSA Insurance Group plc
Q3 2016 Trading Update

3 Nov 2016

RSA performed strongly in Q3 with underwriting profits, combined ratio and operating profits ahead of H1 run rate.

Stephen Hester, RSA Group Chief Executive, commented:

“We are very pleased with RSA's continuing progress towards our ‘Best in Class’ ambitions.

“Momentum in the business is excellent across the many improvements to customer service, underwriting effectiveness and cost efficiency we are driving through.

“Brexit provides us an attractive tailwind from overseas earnings translation, in the context of an otherwise challenging environment.

“While Q4 can be a bumpy underwriting period, RSA is on track for strong operating earnings increases for 2016 overall.”

Trading update

Market conditions

- Insurance market conditions are broadly unchanged.
- Financial markets were volatile in Q3. In the UK, Brexit impacts were seen through lower bond yields, narrower spreads and weaker Sterling. In October, however, the yield and spread movements partly reversed.
- Sterling depreciated a further c.3% in the quarter against our major international currency blocks, bringing average year-to-date depreciation into the mid-teens. With over two thirds of RSA’s operating profit in non-Sterling currencies this benefits RSA’s reported results.

Premiums (further detail available on page 4)

- Core Group net written premiums YTD are up 6%, though slightly down on an underlying basis[1]. Premium levels are in line with our plan overall, though with some variability by region.
- Group net written premiums YTD down 5% versus prior year reflecting the impact of disposals.

Profitability

- **Profitability** for Q3 YTD on underwriting, operating and after-tax measures is strong and ahead of our expectations.
- 2016 YTD **attritional loss ratios** continue to show attractive year-on-year improvement across all of our core regions.

[1] *Constant currency, excluding Group Re*

- Q3 YTD **weather event costs** for the Core Group were £145m which represents 3.2% of net earned premiums (Q3 YTD 2015: 1.5%; planning assumption: c.3.0%). The overall Group weather ratio was 3.0% (Q3 YTD 2015: 1.7%).
- **Large losses** for the Core Group were £411m for Q3 YTD representing 9.0% of net earned premiums (Q3 YTD 2015: 8.3%; planning assumption c.8.5%). The overall Group large loss ratio was 8.4% (Q3 YTD 2015: 7.7%).
- Q3 YTD **prior year profit** emergence is better than plan, though likely to remain volatile on a quarterly basis.
- Expense reductions remain on track.
- Investment performance is in line with our most recent guidance for 2016 (of c.£350m of full year income and c.£60m of discount unwind).
- Below operating profits, Q3 movements were broadly as expected. There was the previously flagged one-off charge of £39m relating to the July debt buyback, and there were planned charges reflecting the progress of our cost/restructuring activities.

Capital

- Tangible equity at 30 September was £3,179m (30 June 2016: £3,324m, 31 December 2015: £2,838m) with net income, positive FX and mark-to-market movements, offset by negative pension fund movements (IAS 19 basis). Tangible net asset value per share was 312p.
- Solvency II capital surplus at 30 September 2016[1] was c.£1.0bn with coverage well within the upper part of our target range at 151% (30 June 2016: 158%, 31 December 2015: 143%). Coverage strengthened in October.
- The movement in Solvency II coverage was dominated by the impact of UK post-Brexit quantitative easing on the AA corporate bond spread which drives IAS 19 pension accounting. This was partly offset by positive movements from profits, FX and other mark-to-market values. The 30 September Solvency II position also includes the accrual of a 'notional' dividend for the third quarter[2].
- £200m subordinated debt retirement completed in July. We continue to evaluate further options to improve the quality of capital as well as exploring potential transactions involving our UK Legacy liabilities.

[1] *The Solvency II capital position at 30 September 2016 is estimated.*
[2] *This 'notional' amount should not be considered in any way to be an indication of a final dividend, if any, for the 2016 financial year.*

Supplementary information

Net written premiums

	9 Months 2016 £m	9 Months 2015 £m	Change[2] %
Scandinavia	1,336	1,265	6
Canada	1,026	1,014	1
UK & Ireland	2,155	2,132	1
Group Re[1]	37	(104)	135
Total Core Group	**4,554**	**4,307**	**6**
Discontinued & non-core	261	786	(67)
Total Group	**4,815**	**5,093**	**(5)**

[1] *Group Re premiums for 9 months 2015 included £139m incurred for the purchase of a 3 year Group aggregate reinsurance cover.*
[2] *On a constant currency basis premium income trends are in line with first half performance, being down 4% in Scandinavia and Canada and up 1% for the Core Group as a whole.*

Scandinavia

- Our Swedish business continues to grow premiums across both Personal and Commercial lines. This was offset, however, by lower Danish premiums due to the previously flagged Marine portfolio transfer to the UK and the non-repeat of a large multi-year renewable energy deal, together with slow market conditions overall. Danish lead indicators have started to improve in September.
- Norway premiums were impacted by the previously flagged non-renewal of a large affinity motor contract, and competitive conditions in the Commercial market. Lead indicators have also started to improve in Norway.

Canada

- The portfolio actions of the last two years are now largely complete. However, conditions remain competitive, particularly in the Commercial Broker channel. Our priority continues to be on sustained underwriting discipline, with premium growth returning as business improvements take hold.

UK & Ireland

- UK Commercial lines saw modest growth over prior year (excluding the impact of the portfolio transfer from Denmark, discussed above).
- UK Personal premiums were slightly down versus prior year, excluding the impact of our withdrawal from the broker motor channel. Lower Household premiums reflecting the exit of certain unprofitable schemes, were partly offset by strong growth in Telematics.
- Ireland saw continued premium growth due to strong pricing increases as part of the turnaround plan.

Note: commentary refers to movements at constant exchange rates

Investment portfolio

	£m
30 June 2016	**14,566**
Foreign exchange	244
Mark-to-market	93
Other movements	(173)
30 Sept 2016	**14,730**

The investment portfolio grew by 1% in the quarter to £14.7bn, largely driven by the weakening of Sterling. The composition and credit quality of the portfolio remains broadly unchanged.

The annualised average book yield on the total portfolio for the year-to-date was 2.6% (H1 2016: 2.7%), with annualised average yield on the bond portfolios of 2.5% (H1 2016: 2.6%). The average year-to-date reinvestment rate in the Group's major bond portfolios was approximately 1.4%.

Average bond duration is 4.2 years (30 June 2016: 4.2 years).

Balance sheet unrealised gains of £830m (pre-tax) increased by £111m during the quarter (30 June 2016: £719m), although much of this increase has reversed in October.

Foreign exchange rates

Foreign exchange rates used in this statement are:

	Average rate			Closing rate			
	9 months 2016	9 months 2015	% change	**30 Sept 2016**	30 June 2016	31 Dec 2015	% change in Q3
Canadian Dollar	**1.84**	1.93	(5)	**1.71**	1.74	2.05	(2)
Danish Krone	**9.28**	10.25	(9)	**8.61**	8.98	10.13	(4)
Swedish Krona	**11.68**	12.88	(9)	**11.10**	11.38	12.47	(2)
Euro	**1.25**	1.37	(9)	**1.16**	1.21	1.36	(4)

Enquiries:

Investors & analysts
Rupert Taylor Rea
Director of Investor Relations
Tel: +44 (0) 20 7111 7140
Email: rupert.taylorrea@gcc.rsagroup.com

Laura de Mergelina
Investor Relations Manager
Tel: +44 (0) 20 7111 7243
Email: laura.demergelina@gcc.rsagroup.com

Press
Alice Hunt
Director of External Communications
Tel: +44 (0) 20 7111 7305
Email: alice.hunt@gcc.rsagroup.com

Hilary Douglas
Head of Media & Public Affairs
Tel: +44 (0) 20 7111 7213
Email: hilary.douglas@gcc.rsagroup.com

Conference call for analysts and investors

A conference call for analysts and investors will be held at 08:30am on Thursday 3 Nov to discuss the Q3 Trading Update. Participants should call +44 (0)808 237 0036 (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.