2018 PRELIMINARY RESULTS

RSA Insurance Group plc 28 February 2019

Pre-tax profit £480m, up 7%. Dividends 21p per share, up 7% (final dividend 13.7p)

Underlying results down, driven by higher weather costs and large loss challenges in Commercial Lines; especially London Market business

Extensive underwriting action underway, including portfolio exits announced in 2018

Underlying EPS 34.1p (2017: 43.5p), but c.42p proforma for portfolio exits and reinsurance additions[1]

Underlying return on tangible equity 12.6% (2017: 15.5%) versus 13-17% target range

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Stephen Hester, RSA Group Chief Executive, commented:

"In 2018 RSA increased headline profits and dividends with a still attractive return on capital. At an underlying level however, the results represent RSA's first down year since 2013. We believe strongly that 2019 will show a bounce back and are taking decisive action to that end.

Much went well in 2018, with excellent results in many of RSA's Personal Lines businesses and good progress on expenses and other strategic initiatives. However, adverse weather costs and challenging Commercial Lines results exposed us to more volatility than expected. This was most intense in the 'London Market' business which accounted for substantially all our underperformance in the second half. We announced significant portfolio exits and initiated major pricing and re-underwriting programmes during the year. We have also made management changes and increased reinsurance coverage for 2019. Our performance ambitions for RSA are high, and unchanged. We recognise the need to demonstrate resumed progress against them."

Trading results

- Pre-tax profits up 7% to £480m (2017: £448m)
- Group operating profit £517m (2017: £663m) down 19% at constant FX: Scandinavia £306m; Canada £84m; UK & International £105m
- Underwriting profit of £250m (2017: £394m) down 33% at constant FX. Proforma underwriting profit was £344m[1] excluding losses on exit portfolios and adjusting for reinsurance additions in 2019
- Group combined ratio of 96.2% (2017: 94.0%): Scandinavia 86.8%, Canada 97.6%[2] and UK & International 101.4%. Proforma Group combined ratio 94.6%[1], UK & International 97.4%[1] and Canada 96.7%[1]:
  - Group attritional loss ratio comparable to 2017

[1] Proforma for UK exits and/ or reinsurance, see definition on pages 40 to 41; [2] After allocation of net GVC reinsurance recoveries

- Group weather costs 3.7% (2017: 2.6%) of premiums, £76m[1] above 2017; large losses elevated at 11.6% of premiums (2017: 10.8%)
- Group prior year underwriting profit of £165m (2017: £157m)

- Net written premiums ('NWP') of £6,470m up 1%[2] underlying (down 3% headline):
  - NWP up 2%[1] in Scandinavia, with Sweden up 6%[1]
  - NWP up 6%[1] in Canada. New distribution partnership with Scotiabank to commence in Q2 2019
  - NWP down 3%[1] in UK & International as underwriting and rating actions (including portfolio exits) take effect
- Group written controllable costs down 2%[1] to £1,343m (earned controllable cost ratio 20.4%, 0.7[1] points better than 2017)
- Investment income of £322m (2017: £331m) down 3%
- Statutory profit after tax £372m (2017: £322m)
- Headline earnings per share 31.8p up 21% (2017: 26.3p). Underlying EPS 34.1p, down 22% (2017: 43.5p) but down 19% at constant FX. Proforma for UK exits and/ or reinsurance, EPS c.42p[3]
- Final dividend of 13.7p per ordinary share proposed, bringing total 2018 dividends to 21p per ordinary share (up 7%) and representing a 62% payout ratio of underlying earnings and a 50% payout of proforma[3] EPS.

Capital & balance sheet

- Solvency II coverage ratio of 170% after final dividend (31 December 2017: 163%), above 130-160% target range
- Tangible equity £2.9bn (31 December 2017: £2.8bn), 279p per share
- Underlying return on tangible equity of 12.6% (2017: 15.5%) just below the 13-17% target range
- Triennial UK pension review concluded successfully. Stable long-term agreement in place to an agreed de-risked end point (see page 25)
- IFRS pension surplus £182m (2017: £88m deficit). 2018 capital impact of bond 'pull-to-par' of c.£85m (2019 outlook: c.£60m).

Strategic update

- RSA's entire focus is on the drive for outperformance in our markets. In that context, our improvements continue - targeted at customer service, underwriting capabilities and costs. In those business areas where profitability is good, we are seeing good success with growing customer volumes as a result
- RSA's 2018 underwriting results (coupled with our London Market losses in H2 2017) demonstrate too much exposure to market volatility, while accepting that volatility is an inescapable part of the insurance industry. During the year we initiated determined actions to improve the position in future:
  - Our reinsurance programmes have operated well, capping individual losses, and with a Group aggregate cover capping accumulated individual losses over £10 million. These continue, but we have supplemented them with new aggregate covers for losses between £1-10m in each of our three regions for 2019. Had these covers been in place in 2018, they would have reduced losses by c.£30m net, of which £12m would have been on continuing portfolios

[1] At constant FX; [2] Underlying measure, refer to page 38 for further information
[3] Proforma for UK exits and/ or reinsurance, see definition on pages 40 to 41

- Our London Market Specialty & Wholesale business had 2018 premium income of £265m, but underwriting losses of £109m after net GVC reinsurance recoveries of £13m. This reflects unusually difficult conditions (including Nat Cat) across the market as well as our own underwriting shortcomings. We have announced portfolio exits and changes in underwriting appetite in this business area that reduce our activity by c.50% versus 2017 levels and a strategic review is ongoing to identify any further portfolio exits. While portfolio run-off will continue over 2019, proforma for UK exits and/ or reinsurance these changes (including two domestic UK scheme exits) would have improved UK Commercial reported 2018 underwriting profits by £110m[1]
- In the rest of our Commercial Lines businesses, intense programmes are underway re-underwriting and re-pricing business where needed and possible, or lapsing if necessary; c.55% of the pricing and underwriting actions targeted have already been implemented
- Underwriting capabilities continue to receive intense focus across the Group. These include more sophisticated and agile pricing models, underwriter training and portfolio discipline and technology driven insights

- A fundamental aspect of competitiveness is cost efficiency and RSA has transformed its position in this regard. There is work yet to do, especially in areas where underwriting actions are reducing business volumes. Group written controllable costs for 2018 were down 2%[2] year-on-year to £1,343m (comprising 4% cost reductions, offset by 2% inflation). With gross annual savings of £460m since the beginning of 2014, we have achieved the Group target of > £450m savings a year early and will now move cost efficiency into 'business as usual' mode.

Market update & outlook

- Insurance market conditions remain competitive across our territories with significant price/ volume trade-offs. However, rate hardening and capacity adjustment is now helping us reprice in Canada and in loss-making international business lines
- Financial market conditions are volatile, driven by political developments and their knock-on to monetary and economic trends. RSA is relatively well protected, with conservative investment portfolios and a broad array of internationally derived profits
- RSA has made strong fundamental progress in recent years. Despite 2018 setbacks, all of our international businesses have the capability to operate around the 'best-in-class' combined ratio ambitions we have articulated, albeit with Canada having a particular bounce back targeted in 2019. Our UK business faces the toughest competition and is taking longer than hoped to achieve its targets. But we firmly believe these are possible and expect the portfolio changes and other measures outlined to improve results substantially in 2019 and beyond.

[1] Proforma for UK exits and/ or reinsurance, see definition on pages 40 to 41
[2] At constant FX

MANAGEMENT REPORT – KEY FINANCIAL PERFORMANCE DATA

Management basis

£m (unless stated)	FY 2018	FY 2017
Profit and loss		
Group net written premiums	6,470	6,678
Underwriting profit ◊	250	394
Combined operating ratio ◊	96.2%	94.0%
Investment result ◊	275	284
Operating result ◊	**517**	**663**
Profit before tax	480	448
Underlying profit before tax ◊	**492**	**620**
Profit after tax	372	322
Net attributable profit ◊	326	269
Metrics		
Earnings per share (pence)	31.8p	26.3p
Underlying earnings per share (pence) ◊	**34.1p**	**43.5p**
Interim dividend per ordinary share (pence)	7.3p	6.6p
Final dividend per ordinary share (pence)	13.7p	13.0p
Return on tangible equity (%)	11.8%	9.4%
Underlying return on tangible equity (%) ◊	**12.6%**	**15.5%**
	31 Dec 2018	31 Dec 2017
Balance sheet		
Net asset value (£m)	3,786	3,653
Tangible net asset value (£m) ◊	2,867	2,765
Net asset value per share (pence) ◊	357p	345p
Tangible net asset value per share (pence) ◊	279p	270p
Capital		
Solvency II surplus (£bn)	1.2	1.1
Solvency II coverage ratio	**170%**	**163%**

◊ **Alternative performance measures:**

The Group uses Alternative Performance Measures (marked ◊ throughout), including certain underlying measures, to help explain business performance and financial position. Where not defined in the body of this announcement, further information is set out in the appendix on pages 32 to 41.

CHIEF EXECUTIVE'S STATEMENT

In 2018, RSA delivered growth in profits and earnings per share, further dividend growth and underlying return on tangible equity of 12.6%, substantially above our cost of capital.

However, for us 2018 was a disappointing year since RSA posted the first decline in underwriting profits since 2013, driven primarily by higher weather costs and a range of loss challenges in our Commercial Lines businesses, most notably through our London Market results. While we can never be immune from external volatility, we have taken decisive action to address these losses and expect a good recovery in 2019.

Since 2013, a wide range of fundamental improvements have transformed RSA's competitive position and capabilities. These programmes, aimed towards our 'best-in-class' strategic ambitions, continued to deliver across 2018. While there are many positive examples, the strong results from our Personal Lines businesses (57% of the Group) are a fine example – delivering for both customers and shareholders despite weather headwinds.

Strategy & focus

RSA is a focused international insurance group. We have complementary leadership positions in the major general insurance markets of the UK, Scandinavia and Canada together with 'supporting' international business. The Group is well balanced between personal (57%) and business customers (43%), across our regions, product lines and distribution channels.

Our business strategy is to sustain a disciplined focus on RSA's existing areas of market leadership, whilst driving operating improvements in pursuit of 'best-in-class' performance levels.

RSA's strategy remains a strong one, best suited for our markets. However, tough conditions in specialty & wholesale insurance markets in 2017 and 2018 have prompted a reassessment and substantial cutback of our London Market presence (4% of 2018 Group premiums) which forms part of the UK & International commercial business.

External conditions

General insurance markets are relatively mature, consolidated and stable, though with some intrinsic underwriting volatility. Attractive performance can be achieved through intense operational focus within a disciplined strategic framework.

2018 was a year with some major external underwriting challenges for the insurance industry. In common with 2017, it was an unusually poor loss year for both 'Nat Cat' losses and commercial large loss activity. Other weather related losses were also higher than long-term averages. Additionally, selected insurance lines continue to see claims inflation higher than CPI, motor most notably. Despite this backdrop, for many participants overall profitability is robust and hence competitive intensity remains high. Nevertheless, there are now real signs of pricing increases and capacity withdrawals in the worst performing lines which should help portfolio remediation where necessary.

Insurers are exposed to financial markets, and through them to political and macro-economic challenges, despite relatively well-insulated insurance activities themselves. From RSA's perspective, 2018 was comparatively uneventful in financial market impacts; although there was an adverse FX translation effect (4% of underlying EPS) from sterling strength, and bond yields did not hold the increases initially forecast as political and trade worries impacted markets in H2. Volatility remains a real risk for 2019, not least in the UK via the continuing Brexit debate. RSA earns the large majority of its profits overseas which is at least a comfort.

2018 actions

2018 was an active year at RSA with our actions falling broadly into two categories – continued operational improvement in pursuit of our 'best-in-class' ambitions and specific underwriting actions to address the underperforming areas of our business.

Financial strength: RSA's 'A' grade credit ratings are where we want them. The Solvency II capital ratio strengthened further during 2018 (170% versus 163% in 2017). We also successfully negotiated a longer term funding settlement for our UK pension plan liabilities designed to provide a more stable, lower risk future for the plans themselves and RSA as sponsor.

Business improvement: our pursuit of 'best in class' operating metrics and capabilities continues to drive much activity. This is grouped across three areas - customer service, underwriting and cost efficiency - and enabled by data, technology and our own human capital.

Where underlying profitability is good, we have been successful at growing our business and receiving positive customer support. Personal Lines policy counts rose in 2018 in all regions. We also were successful in winning a major bancassurance partnership in Canada with Scotiabank.

Cost efficiency remains a critical element of competitiveness. RSA's excellent progression continued in 2018 and our cost programmes reached gross annual savings of £460m, meeting our > £450m target a year early. This effort now becomes 'business as usual' but has contributed a 4 point improvement to our combined ratio since 2013.

Insurers are the original 'data scientists' - that is what actuaries do - and capability development through technology and data remains at the heart of our improvement efforts. Hand-in-hand goes the contribution of our people who are increasing productivity every year through technology and better ways of working, and in so doing raising their own skills and value-added contribution.

Underwriting actions: substantial actions were taken in 2018 and are continuing to address areas of underperformance in underwriting:

- In Personal Lines, the primary challenge was weather volatility which is hard to specifically manage. Canada was our worst affected territory. Auto lines claims inflation also remains a market challenge. Extensive rate increases are going through in affected portfolios, together with selected broker cancellation where rate alone is unlikely to have the required result
- In Commercial Lines more extensive action is needed. We announced portfolio exits for c.50% of our London Market business and the two remaining UK generalist MGAs. Across all our remaining Commercial Lines businesses, underwriting action and rate increases are being deployed against underperforming areas. And for 2019 we have added new reinsurance aggregate covers aiming to reduce large loss volatility in each of our regional businesses.

Financial results: at a headline level, pre-tax profits rose 7% to £480m and earnings per share rose 21%. Underlying return on tangible equity was 12.6% (versus 13-17% target range).

Nevertheless, it was a disappointing year financially with the first decline in underlying profits since 2013. Underlying EPS was 34.1p per share (2017: 43.5p), although proforma results were c.42p[1].

[1] *Proforma for UK exits and/ or reinsurance, see definition on pages 40 to 41*

The fundamentals of our business are solid. Overall premiums rose 1%[1 2] on an adjusted basis (down 3% on a reported basis), driven by growth in Personal Lines.

Our Personal Lines businesses (57% of total) showed a combined ratio of 92.4% despite higher weather costs than 2017.

In Commercial Lines we had poor results – a combined ratio of 101.9%. Proforma for portfolio exits and 2019 reinsurance additions, the ratio would have been 97.6%[3] with a range of other improvements targeted for 2019.

On a geographic basis, our Scandinavian business continues to be the most important profit contributor. A combined ratio of 86.8% was behind the 2017 record, held back by Commercial Lines large losses, but strong nevertheless. Canada fell back due to adverse weather costs and poor Commercial Lines results. A significant recovery is targeted for 2019.

As in 2017, our UK & International business recorded poor results – a combined ratio of 101.4%. Proforma for business exits, this improves to 97.4%[3] and within it were excellent Ireland and Middle East performances.

We have proposed a final dividend of 13.7p per share making 21p per share total for 2018, up 7%. This represents a 62% payout of underlying EPS and a 50% payout of proforma EPS[3] and in so doing we are aiming to smooth the impact of underwriting volatility in the light of our belief in improved future results. Our strong capital position and in-year free capital generation support this stance. RSA's dividend policy is unchanged, targeting 40-50% 'normal' payout levels with additional possible where free capital generation so supports.

Looking forward

2018's challenges have not changed our view of RSA's attractive performance potential or any of our targeted financial metrics. We recognise the importance of demonstrating resumed progress in 2019 and believe the actions are in place to support that. No business is free of challenge, and the insurance industry will undoubtedly continue to present volatility. We nevertheless are confident that good improvement can be achieved.

Thanks

RSA benefits enormously from the support of our stakeholders every year. Customers and shareholders represent our key audience. However, the contributions of my colleagues is what makes possible all we accomplish. My sincere thanks to them for their efforts in 2018. The future for RSA is bright if we make it so.

Stephen Hester
Group Chief Executive
27 February 2019

[1] At constant FX
[2] Underlying measure, refer to page 38 for further information
[3] Proforma for UK exits and/ or reinsurance, see definition on pages 40 to 41

MANAGEMENT REPORT

SEGMENTAL INCOME STATEMENT

Management basis – 12 months ended 31 December 2018

	Scandinavia £m	Canada £m	UK & International £m	Central functions £m	**Group 2018 £m**	**Group 2017 £m**
Net written premiums	**1,817**	**1,652**	**3,100**	**(99)**	**6,470**	**6,678**
Net earned premiums	1,807	1,607	3,129	(6)	6,537	6,605
Net incurred claims	(1,257)	(1,148)	(2,114)	39	(4,480)	(4,350)
Commissions	(64)	(211)	(611)	-	(886)	(911)
Operating expenses	(248)	(223)	(447)	(3)	(921)	(950)
Underwriting result ◊	**238**	**25**	**(43)**	**30**	**250**	**394**
Investment income	94	65	163	-	322	331
Investment expenses	(3)	(3)	(8)	-	(14)	(13)
Unwind of discount	(23)	(3)	(7)	-	(33)	(34)
Investment result ◊	**68**	**59**	**148**	**-**	**275**	**284**
Central expenses	-	-	-	(8)	(8)	(15)
Operating result ◊	**306**	**84**	**105**	**22**	**517**	**663**
Interest					(25)	(43)
Other non-operating charges					(12)	(172)
Profit before tax					**480**	**448**
Tax					(108)	(126)
Profit after tax					**372**	**322**
Non-controlling interest					(23)	(33)
Other equity costs[1]					(23)	(20)
Net attributable profit ◊					**326**	**269**
Underlying profit before tax ◊					**492**	**620**
Loss ratio (%)	69.6	71.5	67.6	-	68.5	65.9
Weather loss ratio	*0.4*	*6.8*	*5.7*	-	*3.7*	*2.6*
Large loss ratio	*8.9*	*9.4*	*14.2*	-	*11.6*	*10.8*
Current year attritional loss ratio ◊	*63.3*	*58.1*	*50.1*	-	*55.8*	*55.3*
Prior year effect on loss ratio	*(3.0)*	*(2.8)*	*(2.4)*	-	*(2.6)*	*(2.8)*
Commission ratio (%)	3.5	13.1	19.5	-	13.6	13.7
Expense ratio (%)	13.7	13.9	14.3	-	14.1	14.4
Combined ratio (%)◊	**86.8**	**98.5**	**101.4**	**-**	**96.2**	**94.0**
After allocation of GVC reinsurance recoveries		97.6				
Earned controllable expense ratio (%) ◊	21.1	17.3	21.4	-	20.4	21.0
Proforma for exits and/ or reinsurance[2]						
Underwriting result ◊		53	77		344	
Operating result ◊		112	225		611	
Combined ratio (%) ◊		96.7	97.4		94.6	

Notes:

UK & International comprises the UK (and European branches), Ireland and Middle East. Please refer to appendix for 2017 comparatives.

[1] *Preference dividends of £9m and coupons of £14m paid on Restricted Tier 1 securities*
[2] *See definition on pages 40 to 41*

Premiums

Net written premiums of £6,470m were down 1% at constant FX but up 1% on an underlying basis[1]. Premiums were dampened by c.£180m due to costs for the triennial GVC renewal and a reduction in retention levels for certain reinsurance programmes. These were budgeted in our plans. Foreign exchange movements provided a 2% headwind to premiums year-on-year.

We continue to see a strengthening of underlying customer activity where capability improvements take effect. Customer satisfaction measures, such as net promoter score (‘NPS’), and sales and service metrics are generally good, although with improvement still targeted. Group retention was slightly lower at 80% (2017: 81%). In Personal Lines, Canada was up, Scandinavia was flat and UK & International was down as a result of underwriting and rating action.

Regional trends for 2018 include:

- Scandinavian premiums were down 1% at reported FX but up 2% at constant FX. Attractive growth in Sweden was partly offset by contraction in Norway. Personal Lines policies-in-force (‘PIFs’) were up 1%, while Commercial Lines volumes (excluding rate) were down 8%
- Canadian premiums were up 2% at reported FX and up 6% at constant FX. The region continued the positive growth trends seen in 2017, with Personal Lines PIFs up 1% and Commercial Lines volumes up 1% (excluding rate). Retention is performing particularly well with both Johnson, our direct and affinity channel, and Personal broker improving over the last year to 90% and 89% respectively. Johnson continued to grow organically, achieving growth of 4% in 2018
- Net written premiums were down 3% in UK & International or down 1% excluding reinsurance changes, both at constant FX. Personal Lines PIFs were up 2%, while Commercial Lines volumes (excluding rate) were down 8%. Our partnership with Nationwide in the UK is doing well; retention was 85% in 2018 and NPS scores remained strong. However, overall premiums were down as we re-priced and re-underwrote certain portfolios, exited two domestic schemes and commenced the portfolio exits and changes in underwriting appetite which we announced for our Specialty & Wholesale business. Net written premiums in Ireland were up 2% at constant FX, while premiums in the Middle East were down 1%.

More detail is provided in the regional reviews on pages 15 to 20.

[1] Underlying measure, please refer to page 38 for further information

Underwriting result

Group underwriting profit of £250m (2017: £394m):

	Total UW result ◊		Current Year UW ◊		Prior Year UW ◊	
£m	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Scandinavia	238	315	182	255	56	60
Canada	25	98	(21)	56	46	42
UK & International	(43)	(82)	(111)	(110)	68	28
Central functions	30	63	35	36	(5)	27
Total Group	**250**	**394**	**85**	**237**	**165**	**157**

- The Group attritional loss ratio of 55.8% was 0.2 points[1] higher than 2017. In Scandinavia, the attritional loss ratio increased by 0.7 points. Personal Lines improved in Sweden and Denmark, while Commercial Lines deteriorated. In Canada, the loss ratio increased by 1.3 points due to higher mid-sized losses in Household and claims inflation in Commercial Auto. The UK & International loss ratio reduced by 0.8 points[1] in 2018. In the UK, improvements in Household and Pet were dampened by increases in Marine and Motor. The improvement in Household of 4.1 points reflected our actions to address the 'escape of water' issue which presented in H2 2017
- 2018 was heavily impacted by weather, with losses of £242m or 3.7% of net earned premiums (2017: 2.6%; five year average: 3.1%[2]). Canada was the most affected with a weather ratio of 6.8%. Insured damage for severe weather events across Canada in 2018 reached $1.9bn[3] for the industry, the fourth-highest loss year on record. The UK & Ireland experienced a series of severe winter storms, with Storm Emma costing an estimated £50m. Finally, the UK experienced an increase in subsidence claims as a result of the hot and dry summer weather. Nat Cat losses on London Market business were below 2017, but high on an historic basis
- Large losses were £758m or 11.6% of net earned premiums (2017: 10.8%; five year average: 9.6%[2]). Scandinavia increased by 3.2 points, mainly driven by the Interconnector segment (now exited) and a Commercial Property fire loss in Denmark. Large losses were 1.7 points higher in Canada, with Property classes seeing an increase in H2. While the UK & International ratio was down 1.3 points, disappointingly, it remained elevated versus our plans and the five year average. This reflected large loss volatility mainly in Specialty & Wholesale, in addition to the need to improve underwriting in certain areas. The segments that are the subject of the exits contributed 2.1% points to the UK & International ratio (they will substantially run-off in 2019). The new regional aggregate reinsurance covers for losses between £1-10m would have reduced Group losses by c.£30m net or 0.5 points had they been in effect for 2018 or £12m excluding losses on exited portfolios.

Group prior year profit of £165m provided a 2.6 point benefit (2017: 2.8 points) to the combined ratio. This was higher than our planning assumption and included positive development from each region.

Our assessment of the margin in reserves for the Group (the difference between our actuarial indication and the booked reserves in the financial statements) remains at its target level at c.5% of best estimate claims reserves.

Proforma for UK exits and/ or reinsurance, the combined ratio for UK & International was 97.4%[4], Canada was 96.7%[4] and the Group was 94.6%[4].

[1] Underlying measure, please refer to pages 32 to 41 for further information; [2] 2014 to 2018; [3] Source: Catastrophe Indices and Quantification Inc.; [4] Proforma for UK exits and/ or reinsurance, see definition on pages 40 to 41

Underwriting operating expenses

The Group underwriting expense ratio of 14.1% was 0.3 points better than 2017 at constant FX. Scandinavia improved by 0.9 points and Canada improved by 1.3 points. The expense ratio in UK & International increased by 0.5 points, mainly due to a contraction in premiums.

Commissions

The Group commission ratio of 13.6% decreased slightly (2017: 13.9%[1]), mainly due to a lower proportion of Commercial Lines in the business mix.

Investment result

The investment result was £275m (2017: £284m) with investment income of £322m (2017: £331m), investment expenses of £14m (2017: £13m) and the liability discount unwind of £33m (2017: £34m).

Investment income was down 3% on prior year, primarily reflecting the impact of reinvestment at lower yields which was partially offset by increased income from actions taken on the portfolios to increase exposure to less liquid credit investments. The average book yield across our major bond portfolios was 2.5% (2017: 2.5%).

Based on current forward bond yields and foreign exchange rates, it is estimated that investment income will be c.£285-300m for 2019, c.£270-290m for 2020 and c.£265-285m for 2021. The discount unwind is expected to be in the region of c.£30-35m per annum and investment expenses are expected to be c.£13m per annum.

Controllable costs

Group written controllable costs were down 2%[1] to £1,343m. This comprised 4% cost reductions, offset by 2% inflation. Scandinavia delivered year-on-year cost reductions of 10%, Canada delivered 2% and UK & International delivered 3%, all at constant FX.

Group FTE[2] is down 26% (excluding disposals) since the beginning of 2014 to 12,244 at 31 December 2018. FTE decreased by 3% during 2018.

The earned controllable expense ratio improved by 0.7[1] points to 20.4% in 2018. It is now down over 4[1] points since 2013, making good progress towards our ambition of an earned controllable expense ratio of less than 20%.

Our cost reduction programme has now delivered total gross cost reductions of £460m since 2013, reaching our target of £450m in savings a year early, and we have moved cost efficiency into ‘business as usual’ mode.

Earned controllable expense ratio: ◊	Scandinavia %	Canada %	UK & International %	**Total** **%**
Year ended 31 December 2018	**21.1**	**17.3**	**21.4**	**20.4**
Year ended 31 December 2017	23.1	18.6	20.8	21.0

Non-operating items

Interest costs:

- Interest costs were £25m (£39m including the Tier 1 issuance), down from £43m in 2017. The reduction reflects the debt restructuring actions taken in 2016 and 2017. From 2019, changes to lease accounting (IFRS 16), mainly on properties, will add c.£7m to this line

[1] At constant FX Group and ex. disposals (where relevant); [2] Full time equivalent employees

- Coupon costs of £14m (2017: £11m) for the 2017 Tier 1 issuance are presented at the bottom of the management P&L as 'other equity costs'. Under IFRS, these are recognised in the statement of changes equity.

Other non-operating charges:

£m	2018	2017
Net gains/ losses/ FX	20	47
Debt buyback premium	-	(59)
Restructuring costs	-	(155)
Amortisation	(13)	(15)
Pension net interest cost	(6)	(7)
Goodwill/ intangible asset write-backs/ (downs)	(7)	17
Other	(6)	-
Total	**(12)**	**(172)**

- Net gains of £47m in 2017 included a £66m gain relating to the UK Legacy disposal (mainly mark-to-market of the assets transferred to the buyer) and a £22m charge relating to the commutation of the Group's adverse development reinsurance cover
- 2017 also included a charge of £59m relating to the premium paid on the retirement of c.£600m in high coupon debt
- No non-operating reorganisation costs were incurred during the year (2017: £155m)
- A goodwill impairment charge of £7m relating to the Group's investment in Norway was recognised in 2018. The goodwill write-back of £17m in 2017 reflected the re-measurement of the fair value of the Oman business following its IPO process.

Tax

The Group reported a tax charge of £108m for 2018, giving an effective tax rate (ETR) of 23% (2017: 28%). The tax charge largely comprises tax payable on overseas profits. The Group underlying tax rate for 2018 was 20% (2017: 22%).

The carrying value of the Group's deferred tax assets at 31 December 2018 was £234m (2017: £276m), of which £189m (2017: £217m) are in the UK. The decrease in 2018 is mainly due to a reduction in the IAS 19 deficit on a UK pension fund. At current tax rates, a further c.£261m (2017: c.£229m) of deferred tax assets remain available for use but not recognised on balance sheet; these are predominantly in the UK and Ireland.

The carrying value of the Group's deferred tax liabilities at 31 December 2018 was £79m (2017: £56m), the majority of which are in Sweden and Denmark. The increase in 2018 is mainly due to a change in the taxation basis for AFS investments in Sweden.

In 2019, we continue to expect the Group's ETR and underlying tax rate to trend towards 20% given the scale of the unrecognised UK tax assets.

Dividend

We are pleased to declare a final dividend of 13.7p per ordinary share (2017: 13.0p). Together with the interim dividend of 7.3p, this brings the total dividend for the year to 21p (up 7%), representing a 62% payout of underlying EPS and a 50% payout of proforma EPS[1]. Our medium term policy of ordinary dividend payouts of between 40-50% of earnings remains, with additional distributions where justified.

[1] *Proforma for UK exits and/ or reinsurance, see definition on pages 40 to 41*

BALANCE SHEET

Movement in Net Assets

	Share-holders' funds[1] £m	Non-controlling interests £m	Tier 1 notes £m	Total equity £m	Loan capital £m	Equity & loan capital £m	TNAV ◊ £m
Balance at 1 January 2018	**3,653**	**152**	**297**	**4,102**	**441**	**4,543**	**2,765**
Profit after tax	349	23	-	372	-	372	450
Foreign exchange losses net of tax	(21)	8	-	(13)	-	(13)	(16)
Fair value losses net of tax	(146)	(1)	-	(147)	-	(147)	(146)
Pension fund gains net of tax	161	-	-	161	-	161	161
Share issue	5	-	-	5	-	5	5
Share based payments	12	-	-	12	-	12	12
Prior year final dividend	(133)	(14)	-	(147)	-	(147)	(133)
Interim dividend	(75)	-	-	(75)	-	(75)	(75)
Other equity costs[2]	(23)	-	-	(23)	-	(23)	(23)
Changes in interests in subsidiaries	4	-	-	4	-	4	4
Goodwill and net intangible additions	-	-	-	-	-	-	(137)
Balance at 31 December 2018	**3,786**	**168**	**297**	**4,251**	**441**	**4,692**	**2,867**
Per share (pence) ◊							
At 1 January 2018	345						**270**
At 31 December 2018	**357**						**279**

Tangible net assets increased by 4% to £2.9bn at 31 December 2018.

The increase was driven by profit after tax of £450m[3] offset by fair value mark-to-market movements of £146m, mainly reflecting a reduction in the bond unrealised gains reserve driven by the bond pull-to-par effect as well as widening credit spreads. Payment of the 2017 final and 2018 interim dividends (totalling £208m) also reduced tangible net assets, together with investment of £133m in intangible assets, primarily IT related (net investment of £44m after amortisation shown as part of profit).

The IAS 19 pension valuation generated a gain of £161m and this was primarily as a result of wider 'AA' corporate bond spreads, further pension contributions and mortality assumption updates (see page 25 for further detail).

TNAV per share increased by 3% to 279p.

[1] Ordinary shareholders' funds including preference share capital of £125m
[2] Includes preference dividends of £9m and coupons of £14m paid on 2017 issued restricted tier 1 securities
[3] Adjusted for items relating to goodwill and intangible assets

CAPITAL POSITION

Solvency II position[1]:	Requirement (SCR) £bn	Eligible Own Funds £bn	Surplus £bn	Coverage %
31 December 2018	**1.8**	**3.0**	**1.2**	**170%**
31 December 2017	1.8	2.9	1.1	163%

The Solvency II coverage ratio[1] increased to 170% during 2018 (31 December 2017: 163%):

	%
At 1 January 2018	**163**
Underlying capital generation	22
Net capital investment after amortisation	(3)
Pull-to-par on unrealised bond gains	(5)
2018 dividends	(12)
Market movements including IAS 19 and other	5
At 31 December 2018	**170%**

Please refer to appendix (page 24) for further Solvency II details (including sensitivities).

OUTLOOK

RSA has made strong fundamental progress in recent years. Despite 2018 setbacks, all of our international businesses have the capability to operate around the ‘best-in-class’ combined ratio ambitions we have articulated, albeit with Canada having a particular bounce back targeted in 2019. Our UK business faces the toughest competition and is taking longer than hoped to achieve its targets. But we firmly believe these are possible and expect the portfolio changes and other measures outlined to improve results substantially in 2019 and beyond.

[1] *The Solvency II capital position at 31 December 2018 is estimated*

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REGIONAL REVIEW – SCANDINAVIA

Management basis

	Net written premiums 2018 £m	2017 £m	Change CFX %	Underwriting results 2018 £m	2017 £m	Change CFX %
Split by country						
Sweden	1,062	1,055	6	251	259	3
Denmark	627	623	-	6	61	(90)
Norway	128	155	(16)	(19)	(5)	(329)
Total Scandinavia	**1,817**	**1,833**	**2**	**238**	**315**	**(21)**
Split by class						
Household	362	362	3			
Personal Motor	364	353	7			
Personal Accident & Other	355	339	10			
Total Scandinavia Personal	**1,081**	**1,054**	**6**	**222**	**240**	**(3)**
Policy count change			*1*			
Property	315	327	(2)			
Liability	144	147	(1)			
Commercial Motor	211	214	2			
Other	66	91	(26)			
Total Scandinavia Commercial	**736**	**779**	**(4)**	**16**	**75**	**(78)**
Volume change			*(8)*			
Total Scandinavia	**1,817**	**1,833**	**2**	**238**	**315**	**(21)**
Investment result				68	74	(11)
Scandinavia operating result				**306**	**389**	**(19)**

Operating ratios (%)	Claims 2018	2017	Commission 2018	2017	Expenses 2018	2017	Combined 2018	2017
Scandinavia Personal	**63.5**	61.2	**3.0**	3.1	**12.4**	12.7	**78.9**	77.0
Scandinavia Commercial	**78.0**	70.5	**4.4**	3.4	**15.5**	16.7	**97.9**	90.6
Total Scandinavia	**69.6**	65.2	**3.5**	3.2	**13.7**	14.5	**86.8**	82.9
Earned controllable expense ratio					21.1	23.1		

Claims ratio:			*5 year average*
Weather loss ratio	*0.4*	*0.1*	*0.7*
Large loss ratio	*8.9*	*5.7*	*6.1*
Current year attritional loss ratio	*63.3*	*62.6*	
Prior year effect on loss ratio	*(3.0)*	*(3.2)*	

SCANDINAVIA

Scandinavia delivered operating profit of £306m, down 19%[1]. The combined ratio of 86.8% was 3.9 points higher than last year. Personal Lines remained excellent with a combined ratio of 78.9%; however, Commercial Lines increased by 7.3 points to a combined ratio of 97.9%. The Interconnector segment of 'Tech Lines' contributed 4.7 points to the Commercial Lines combined ratio and is being exited, while a Property fire in Denmark in H1 added 1.6 points.

Net written premiums of £1,817m were up 2% at constant FX, with Personal Lines premiums up 6%[1]. Swedish Personal Lines grew by 8%[1] and policies-in-force ('PIFs') were 2% higher year-on-year. Motor PIFs were up 4%, mainly due to strong online new business sales, while Personal Accident grew by 2%, helped by higher retention. Danish Personal Lines premiums were up 2%[1] within which Motor PIFs grew by 2%. Commercial Lines premiums were down 4%[1] with volumes down 8%. A non-recurring 2017 risk, together with a 2017 large scheme exit, accounted for 3%[1] of the reduction in Commercial Lines premiums (both in Norway).

Customer metrics improved further. We rolled out an 'effortless' measure to determine and track how seamless customer interactions are against defined targets. Danish Personal Lines reported a particularly positive Q4 score of 80%. Customer satisfaction scores improved in both Sweden and Denmark this year, reaching 77% and 81% respectively in Q4. In Sweden, call centre availability was 90% in Q4 and online sales were 53% higher than last year, reflecting our continuing capability investment. Retention was in line with 2017 at 82%. Sweden improved, Denmark was flat and Norway deteriorated.

The current year attritional loss ratio of 63.3% increased by 0.7 points. While Sweden was in line with 2017, Danish Commercial Property increased. Norway was impacted by higher weather-related frequency, Motor claims inflation, mid-sized Commercial Property losses and underperforming schemes currently in remediation. Large losses were elevated at 8.9% compared to the five year average of 6.1% (2017: 5.7%). This was dominated by the (exited) Interconnector segment and by a Commercial Property fire loss in Denmark. All large losses are independently reviewed and the results to date point to volatility rather than an underwriting trend.

The performance improvement programme continued to deliver well. This includes working to optimise data management across the region, investing in a data analytics team and an IT hub has been established in Malmö.

Written controllable expenses were down 8% year-on-year[1], with 10% cost reductions absorbing 2% inflation. The earned controllable cost ratio of 21.1% improved by 2 points. Staff related costs reduced by 10%[1] in 2018 with headcount down 5% against 2017 and down 27% since the end of 2013. Denmark reduced their controllable cost ratio by a pleasing 4.6 points, while Sweden improved by 1.5 points.

Geographically, Sweden generated an underwriting profit of £251m (2017: £245m[1]) and a combined ratio of 75.7% (2017: 75.3%[1]). The movement was mainly driven by the weather loss ratio which was 0.6 points higher than last year. Denmark produced an underwriting profit of £6m (2017: £62m[1]) and a combined ratio of 99.0% (2017: 90.3%[1]). Pleasingly, the Personal Lines combined ratio improved by 1.4 points helped by a reduction in the attritional loss ratio. The Commercial Lines combined ratio deteriorated by 15.6 points due to elevated large losses and, to a lesser extent, a lower prior year result. The underwriting loss in Norway of £19m (2017: £4m[1] loss) reflected a deterioration in attritional claims, higher large losses and higher operating costs. 2018 was a challenging year for all players in Norway.

[1] At constant FX

REGIONAL REVIEW – CANADA

Management basis

	Net written premiums 2018 £m	2017 £m	Change CFX %	Underwriting result 2018 £m	2017 £m	Change CFX %
Household	512	498	6			
Personal Motor	641	622	7			
Total Canada Personal	**1,153**	**1,120**	**6**	**29**	**75**	**(60)**
Policy count change			*1*			
Property	215	218	2			
Liability	105	109	-			
Commercial Motor	127	119	11			
Marine & Other	52	53	1			
Total Canada Commercial	**499**	**499**	**3**	**(4)**	**23**	**(120)**
Volume change			*1*			
Total Canada	**1,652**	**1,619**	**6**	**25**	**98**	**(74)**
Canada proforma[1]				***53***		
Investment result				59	61	1
Canada operating result				**84**	**159**	**(45)**
Canada proforma[1]				***112***		

Operating ratios (%)	Claims 2018	2017	Commission 2018	2017	Expenses 2018	2017	Combined 2018	2017
Canada Personal	**72.6**	67.1	**10.9**	11.2	**13.9**	14.9	**97.4**	93.2
Canada Commercial	**68.8**	61.3	**18.2**	18.3	**13.9**	15.8	**100.9**	95.4
Total Canada	**71.5**	65.3	**13.1**	13.4	**13.9**	15.2	**98.5**	93.9
Canada proforma[1]							***96.7***	
Earned controllable expense ratio					***17.3***	*18.6*		

Claims ratio:			*5 year average*
Weather loss ratio	*6.8*	*3.7*	*4.7*
Large loss ratio	*9.4*	*7.7*	*6.4*
Current year attritional loss ratio	*58.1*	*56.8*	
Prior year effect on loss ratio	*(2.8)*	*(2.9)*	

[1] *Proforma for reinsurance, see definition on pages 40 to 41*

CANADA

Canada delivered operating profit of £84m for 2018. This was down from £153m[1] in 2017. The combined ratio was 98.5%. Adverse weather was the dominant feature, while large losses also increased. The combined ratio improves to 96.7%[2] proforma for net GVC recoveries and for new 2019 reinsurance additions.

Net written premiums of £1,652m were up 6% at constant FX (2017: £1,565m[1]). In Personal Lines, policy counts were up 1% and Johnson, our direct and affinity business, continued to grow organically (4%). Retention remained strong, with both Johnson and Personal broker improving over last year to 90% and 89% respectively. We held our pricing discipline in both Auto and Household, achieving rate above our plans and last year. Volumes increased by 1% in Commercial Lines. New business and rate were up, while retention was down. Growth in Auto in H1 was tempered in H2 in response to pressure on loss ratios.

We continue to work hard on our customer offering, establishing an Executive Customer Board during the year. All Johnson NPS metrics were better than target for Q4, with an agent NPS of +70 reflecting the strength of our front-line customer experience. Self-service Household and Auto transactions in Johnson were up 34% year-on-year, while chat volumes increased by 107%. The Q4 'voice of the broker' survey scored the ease of doing business with us at 74%. NPS for 'RSA Pro' (our new online quote and bind tool for SMEs) was a pleasing +67 for Q4.

We announced our important new partnership with Scotiabank in August and expect to start writing new business in Q2 2019, with renewals following in Q3. The integration of the Deek's acquisition is going well, evidenced by retention in the mid-90s.

The weather loss ratio increased by 3.1 points to 6.8%, compared to a five year average of 4.7%. Insured damage for severe weather events in 2018 reached $1.9bn[3] for the industry, the fourth-highest loss year on record. Relative to peers, our book is slightly weighted towards Property risks which are more exposed to weather events. The large loss ratio was also elevated at 9.4% for 2018, compared to a five year average of 6.4%; losses increased mainly in the Property classes. The 2019 aggregate cover for losses between £1-10m would have reduced losses by c.£14m net or 1 point had it been in effect for 2018. The attritional loss ratio of 58.1% increased by 1.3 points. Increased frequency and severity in mid-sized losses (particularly fire) impacted Household, while Commercial Auto saw higher loss ratios in certain lines. The attritional ratio was steady in Personal Auto, as rate and claims initiatives struggled to outpace inflation. Ontario and Alberta make up the majority of our Auto premiums and we have applied almost 10% of rate in these provinces in the last 18 months. Additional rate is targeted in 2019 of between 3% and 16%, depending on the province and channel, and subject to regulatory approval.

Our business improvement programme continues to progress well. Enhancements to pricing sophistication include more segmented peril rating in Household, where we have introduced more than 20 new target segments. Radar is helping us to improve the speed and efficacy of our non-regulatory rate filings and the implementation of Guidewire is proceeding as planned.

Written controllable expenses of £289m were in line[1] with 2017 or down 2%[1] excluding inflation. While staff costs were 6%[1] lower, higher software amortisation and IT costs reflected capability investments and supported growth initiatives. Importantly, the earned controllable expense ratio of 17.3% improved again. Productivity also improved, with a 13% increase in premiums per FTE in December 2018 compared to December 2017. Finally, headcount was down 6% in 2018 and is now down 26% since the end of 2013.

[1] At constant FX; [2] Proforma for reinsurance, see definition on pages 40 to 41

[3] Source: Catastrophe Indices and Quantification Inc.

REGIONAL REVIEW – UK & INTERNATIONAL

Management basis

	Net written premiums 2018 £m	2017 £m	Change CFX %	Underwriting result 2018 £m	2017 £m	Change CFX %
Household	651	559	16			
Personal Motor	254	303	(16)			
Pet	262	282	(7)			
Total UK Personal	**1,167**	**1,144**	**2**	**(23)**	**10**	**(337)**
Policy count change			*2*			
Property	606	676	(11)			
Liability	296	294	-			
Commercial Motor	194	226	(14)			
Marine & Other	326	348	(5)			
Total UK Commercial	**1,422**	**1,544**	**(8)**	**(83)**	**(126)**	**34**
Volume change			*(9)*			
Total UK	**2,589**	**2,688**	**(4)**	**(106)**	**(116)**	**9**
UK proforma[1]				***14***		
Ireland	312	303	2	30	9	213
Middle East	199	208	(1)	33	25	38
Total UK & International	**3,100**	**3,199**	**(3)**	**(43)**	**(82)**	**48**
UK & International proforma[1]				***77***		
Investment result				**148**	149	(1)
UK & International operating result				**105**	**67**	**60**
UK & International proforma[1]				***225***		

Operating ratios (%)	Claims 2018	Claims 2017	Commission 2018	Commission 2017	Expenses 2018	Expenses 2017	Combined 2018	Combined 2017
Total UK Personal	**63.2**	62.7	**21.0**	20.3	**17.8**	16.2	**102.0**	99.2
Total UK Commercial	**74.8**	75.3	**20.2**	21.7	**10.7**	11.1	**105.7**	108.1
Total UK	**69.7**	70.0	**20.5**	21.1	**13.8**	13.2	**104.0**	104.3
UK proforma[1]							***99.4***	
Ireland	64.1	71.8	11.8	11.7	14.3	13.5	90.2	97.0
Middle East	45.3	48.5	17.6	17.3	20.5	21.9	83.4	87.7
UK & International	**67.6**	68.8	**19.5**	20.0	**14.3**	13.8	**101.4**	102.6
UK & International proforma[1]							***97.4***	
Earned controllable expense ratio					***21.4***	*20.8*		

Claims ratio:	*2018*	*2017*	*5 year average*
Weather loss ratio	*5.7*	*4.8*	*4.6*
Large loss ratio	*14.2*	*15.5*	*12.8*
Current year attritional loss ratio	*50.1*	*50.1*	
Prior year effect on loss ratio	*(2.4)*	*(1.6)*	

[1] Proforma for UK exits and/ or reinsurance, see definition on pages 40 to 41

UK & INTERNATIONAL

UK & International reported an operating profit of £105m in 2018, up 60%[1]. The combined ratio was 101.4% (2017: 102.6%). The combined ratio improves to 97.4%[2] proforma for UK exits and new 2019 reinsurance.

UK

The UK reported an underwriting loss of £106m in 2018 and a combined ratio of 104%. In November, we announced portfolio exits in Speciality & Wholesale, part of our 'London Market' international business. These changes, also including a number of domestic MGA exits, would have improved the 2018 underwriting result by £120m had they been in effect for the full year, or £95m excluding net GVC recoveries foregone on exit portfolios (£25m). The proforma combined ratio improves to 99.4%[2] on this basis.

Net written premiums were down 4% in 2018 or 2% excluding reinsurance changes. Headline premiums were dampened by £44m due to higher reinsurance costs resulting from a reduction in retention levels for certain programmes. Personal Lines premiums were up 2% as reported or up 4% excluding reinsurance changes. Household premiums were up 16%. Our Nationwide partnership is doing well and generated premiums of £170m in its first year of trading; retention was 85% and NPS scores remain strong (claims +63; sales and service +65). On the wider book, we held our discipline on rate to mitigate the 'escape of water' issues which presented in H2 2017. However, rate of between 3% and 19%, depending on the channel, drove a decrease in retention and new business. Motor premiums were 16% lower than last year (10% excluding reinsurance changes). We applied rate of 10% and this impacted retention and new business. Pet volumes were down and were impacted by rate also.

Commercial Lines premiums were down 8% as reported, but down 6% excluding reinsurance changes. Rate has been positive in all major classes; for example, Motor achieved rate of 5% and Marine achieved 6%. However, this has meant a trade-off with top line (volumes down 9%) in ongoing soft market conditions. The decrease in premiums also reflected our exit from certain large schemes as we restructure our delegated authority book, underwriting decisions on some large individual risks (notably in Property and Marine) and the restructuring of Speciality & Wholesale. The latter is expected to reduce premiums written through the London Market by c.£150m per annum versus 2017.

The weather loss ratio increased by 0.9 points. Storm Emma cost c.£45m, while subsidence claims increased as a result of the hot and dry summer weather in the UK. While large losses reduced by 1.2 points, they remained elevated in Specialty & Wholesale (particularly Marine). Excluding the impact of reinsurance changes, the attritional loss ratio of 48.5% reduced by 0.3 points in 2018. Improvements in Household and Pet were dampened by increases in Marine and Motor.

Written controllable expenses of £551m were flat, with 3% cost reductions offset by 3% inflation. The earned controllable cost ratio of 20.9% increased by 0.6 points, mainly due to the contraction in premiums. Headcount is down 24% since the end of 2013.

Ireland and the Middle East

Ireland's performance improved strongly in 2018, generating an underwriting profit of £30m (2017: £9m) on a combined ratio of 90.2% (2017: 97.0%). The attritional loss ratio of 57.6% was 2.8 points better, while the large loss ratio improved by 1.7 points. Prior year development was a favourable 3.7%, compared to adverse development of 0.2% in 2017. The Middle East delivered an underwriting profit of £33m (2017: £25m) and another record combined ratio of 83.4% (2017: 87.7%). The attritional loss ratio improved by 2.5 points.

[1] At constant FX; [2] Proforma for UK exits and/ or reinsurance, see definition on pages 40 to 41

INVESTMENT PERFORMANCE

Management basis

Investment result	2018 £m	2017 £m	Change %
Bonds	242	262	(8)
Equities	35	32	9
Cash and cash equivalents	10	5	100
Property	19	21	(10)
Other	16	11	45
Investment income	**322**	**331**	**(3)**
Investment expenses	(14)	(13)	(8)
Unwind of discount	(33)	(34)	3
Investment result	**275**	**284**	**(3)**

Balance sheet unrealised gains (pre-tax)	31 Dec 2018 (£m)	31 Dec 2017 (£m)	Change %
Bonds	272	397	(31)
Equities	(22)	30	(173)
Other	-	1	(100)
Total	**250**	**428**	**(42)**

Investment portfolio	Value 31 Dec 2017	Foreign exchange	Mark to market	Other movements	Transfer from assets held for sale	Value 31 Dec 2018
	£m	£m	£m	£m	£m	**£m**
Government bonds	3,850	(39)	(23)	177	-	3,965
Non-Government bonds	6,810	(24)	(142)	(139)	-	6,505
Cash	1,048	(5)	-	(255)	-	788
Equities	242	(8)	(52)	23	-	205
Property	308	-	8	(6)	-	310
Prefs & CIVs	522	-	-	12	-	534
Other	219	(2)	2	30	-	249
Total	**12,999**	**(78)**	**(207)**	**(158)**	**-**	**12,556**
Split by currency:						
Sterling	3,468					3,114
Danish Krone	1,096					1,148
Swedish Krona	2,588					2,465
Canadian Dollar	3,079					2,928
Euro	1,443					1,423
Other	1,325					1,478
Total	**12,999**					**12,556**

Credit quality – bond portfolio	Non-government		Government	
	31 Dec 2018 %	31 Dec 2017 %	**30 Dec 2018 %**	31 Dec 2017 %
AAA	43	42	66	66
AA	15	15	30	30
A	27	30	4	4
BBB	13	11	-	-
< BBB	2	2	-	-
Non-rated	-	-	-	-
Total	**100**	**100**	**100**	**100**

INVESTMENT PERFORMANCE

Investment income of £322m (2017: £331m) was offset by investment expenses of £14m (2017: £13m) and the liability discount unwind of £33m (2017: £34m). Investment income was down on prior year reflecting the impact of reinvestment at lower yields which was partially offset by increased income from actions taken on the portfolios to increased exposure to less liquid credit investments.

The average book yield for 2018 on the total portfolio was 2.5% (2017: 2.5%), with an average yield on the bond portfolios of 2.3% (2017: 2.4%). Reinvestment rates in the Group's major bond portfolios were approximately 1.6%.

At 31 December 2018, the average duration of the Group's bond portfolios of 3.8 years was approximately the same as at the prior year end (31 December 2017: 3.8 years).

The investment portfolio decreased by 3% during the year to £12.6bn. The largest element of this movement was driven primarily by negative mark-to-market on bond holdings.

At 31 December 2018, high quality widely diversified fixed income securities represented 83% of the portfolio (31 December 2017: 82%). Equities (largely REITs) represented 2% (31 December 2017: 2%) and cash was 6% of the total portfolio (31 December 2017: 8%).

The quality of the bond portfolio remains very high with 98% investment grade and 72% rated AA or above. We remain well diversified by sector and geography.

Unrealised bond gains and pull-to-par

At year-end, balance sheet unrealised gains of £250m (pre-tax) had reduced by £178m or 42% during 2018, driven by negative mark-to-market on bond holdings due to yield movements and bond pull-to-par.

Based on year-end forward yields, we anticipate that unrealised gains on the AFS bond portfolio should largely unwind over the next 3 years, with c.£120m expected to unwind in 2019. The capital impact of this amount is around £60m, the balance being projected yield change. The capital impact from pull-to-par is expected to fall in 2020 and 2021 based on current market forward yield curves.

APPENDIX 1

Further information

CAPITAL

Solvency II sensitivities

2018 coverage ratio	**170%**	
Sensitivities (change in coverage ratio):	Including pensions[1]	Excluding pensions
Interest rates: +1% non-parallel[2] shift	+6%	+6%
Interest rates: -1% non-parallel[2] shift	-8%	-7%
Equities: -15%	-6%	-2%
Property: -10%	-3%	-2%
Foreign exchange: GBP +10% vs all currencies	-5%	-5%
Cat loss of £75m net	-4%	-4%
Credit spreads: +0.25%[3] parallel shift	-2%	-2%
Credit spreads: -0.25% parallel shift	-9%	+2%

The above sensitivities have been considered in isolation. The impact of a combination of sensitivities may be different to the individual outcomes stated above. Where an IFRS valuation of a pension scheme surplus is restricted under Solvency II, downside pension sensitivities may be dampened relative to those shown.

Reconciliation of IFRS total capital to Eligible Own Funds

	31 Dec 2018 £bn
Shareholders' funds (including preference shares)	4.1
Loan capital	0.4
Non-controlling interests	0.2
Total IFRS capital	**4.7**
Less: Goodwill & intangibles	(0.8)
Adjust technical provisions to Solvency II basis	(0.4)
Basic Own Funds	**3.5**
Tiering & availability restrictions	(0.4)
Dividends	(0.1)
Eligible Own Funds	**3.0**

[1] *The impact of pensions depends significantly on the opening position of the schemes and market conditions. As such, the sensitivities shown are point-in-time estimates that will vary and should not be extrapolated*

[2] *The interest rate sensitivity assumes a non-parallel shift in the yield curve to reflect that the long end of the yield curve is typically more stable than the short end*

[3] *The asymmetry in credit spread sensitivities reflects the fact that upside pension sensitivities are restricted to the surplus cap.*

PENSIONS

Funding basis

We are pleased to report that we have reached agreement with the Trustees of RSA's main UK pension schemes on the results of the latest triennial actuarial valuations. The two schemes had an aggregate funding deficit at 31 March 2018 of £468m, equivalent to 95% funding adequacy (2015: 95%).

Core deficit contributions are to remain at £65m per annum, with the potential for additional contributions of £10m per annum to be paid, dependent on Group capital levels. The Group expects to continue to pay contributions at this level until the schemes are fully funded on a lower-risk basis. In addition, the Group has made a further one-off payment of c.£65m, the majority of which was paid in 2018.

These commitments provide the pension schemes with greater security, while reducing the level of pension risk for the Group.

Accounting basis

The table below provides a reconciliation of the movement in the Group's pension fund position under IAS 19 (net of tax) from 1 January 2018 to 31 December 2018:

	UK £m	non-UK £m	Group £m
Net pension fund deficit at 1 January 2018	**(23)**	**(65)**	**(88)**
Actuarial gains[1]	234	10	244
Tax movements	(94)	(6)	(100)
Deficit funding	110	1	111
Other movements[2]	5	10	15
Pension fund surplus/ (deficit) at 31 December 2018	**232**	**(50)**	**182**

At an aggregate level, the pension fund position under IAS 19 improved during the year from a £88m deficit at 1 January 2018 to a surplus of £182m at 31 December 2018 (net of tax).

The IAS 19 surplus for the UK pension schemes now stands at £232m, with the improvement driven primarily by deficit funding contributions (£110m pre-tax), updated views of life expectancy and widening credit spreads.

IAS 19 sensitivities on UK schemes

	Assets	Liabilities
IAS 19 position at 31 December 2018 (£bn)	**7.8**	**(7.4)**
Sensitivities (£bn change in assets/ liabilities):		
Interest rates: -1%[3]	+1.6	+1.4
Inflation: +1%[3]	+1.0	+0.8
Equities: -15%[4]	-0.1	-
'AA' credit spreads: -0.25%	+0.1	+0.3

[1] *Actuarial gains/ (losses) are gross of tax and include pension investment expenses, variance against expected returns, change in actuarial assumptions and experience losses*

[2] *Other movements are gross of tax and include regular contributions, service/ administration costs, expected returns, interest costs and settlement gains/ (losses)*

[3] *Actual net sensitivity to changes in interest rates and breakeven inflation will vary depending on size and direction of stress and is also highly dependent on the level of credit spreads at any point in time*

[4] *Includes 15% reduction in equities and 10% reduction in all other 'growth' assets*

REINSURANCE

On 1 January 2019, the Group Volatility Cover (GVC) entered the second year of the three year agreement that commenced on 1 January 2018. We did not make any changes to the GVC through the 1 January 2019 renewal period.

The key terms of the GVC are as follows:

- Cover protects all our short tail business including Property, Marine and Construction/ Engineering
- Events or individual net losses of £10m or greater are added together across our financial year. When a loss exceeds £10m it is included in full
- Cover attaches when the total of these retained losses is greater than £170m
- Limit of cover is £150m per year, with £300m maximum over the 3 year period
- Counterparties are high credit quality reinsurers (50% AA- or better, 41% A- or better, 9% collateralised).

Alongside the GVC and our significant underwriting actions, we have purchased some new reinsurance covers to provide additional protection for our short tail lines of business.

Firstly, we have reduced several of our retentions, details below:

- Our maximum Property risk retention has been reduced to £20m from a 2018 maximum of £50m
- Our non-core Catastrophe retentions have been reduced to a maximum of £25m from a 2018 maximum of £50m. This reduced maximum retention applies for all territories, excluding Europe and Canada
- We recover from the new protection if we do not recover the same loss from the GVC.

Secondly, we have purchased new aggregate covers for the UK, Scandinavia and Canada for losses below £10m. These covers provide protection for our short tail lines of business including Property, Construction & Engineering and Marine. Further details below:

- UK: Aggregate cover protects large losses between £3m and £10m. Cover attaches when the total of the losses in this band exceeds £58m. Limit of cover is £30m
- Scandinavia: Aggregate cover protects large losses between DKK 20m and DKK 100m and Catastrophe losses between DKK 50m and DKK 100m. Cover attaches when the total of the losses in these bands exceeds DKK 130m. Limit of cover is DKK 180m
- Canada: Aggregate cover protects large losses between C$2m and C$10m and catastrophe losses between C$5m and C$17.5m. Large loss and Catastrophe sections operate independently; cover attaches when large losses exceed C$50m or Catastrophe losses exceed C$25m. Limit of cover is C$65m which is shared across the two sections of cover.

There have been no other material changes to our reinsurance retentions. Our main Catastrophe retentions remain at £75m for the UK and Europe combined, £50m for Europe excluding the UK and $75m for Canada. Our UK and Ireland Motor retentions remain at the 2018 level of £1m and €1m respectively.

SEGMENTAL ANALYSIS

Management basis – 12 months ended 31 December 2017

	Scandinavia £m	Canada £m	UK & International £m	Central functions £m	**Group 2017 £m**
Net written premiums	**1,833**	**1,619**	**3,199**	**27**	**6,678**
Net earned premiums	1,836	1,591	3,196	(18)	6,605
Net incurred claims	(1,197)	(1,039)	(2,199)	85	(4,350)
Commissions	(59)	(212)	(638)	(2)	(911)
Operating expenses	(265)	(242)	(441)	(2)	(950)
Underwriting result ◊	**315**	**98**	**(82)**	**63**	**394**
Investment income	102	66	163	-	331
Investment expenses	(4)	(2)	(7)	-	(13)
Unwind of discount	(24)	(3)	(7)	-	(34)
Investment result ◊	**74**	**61**	**149**	**-**	**284**
Central expenses	-	-	-	(15)	(15)
Operating result ◊	**389**	**159**	**67**	**48**	**663**
Interest					(43)
Other non-operating charges					(172)
Profit before tax					**448**
Tax					(126)
Profit after tax					**322**
Non-controlling interest					(33)
Other equity costs[1]					(20)
Net attributable profit ◊					**269**
Underlying profit before tax ◊					**620**
Loss ratio (%)	*65.2*	*65.3*	*68.8*	-	65.9
Weather loss ratio	*0.1*	*3.7*	*4.8*	-	*2.6*
Large loss ratio	*5.7*	*7.7*	*15.5*	-	*10.8*
Current year attritional loss ratio ◊	*62.6*	*56.8*	*50.1*	-	*55.3*
Prior year effect on loss ratio	*(3.2)*	*(2.9)*	*(1.6)*	-	*(2.8)*
Commission ratio (%)	*3.2*	*13.4*	*20.0*	-	13.7
Expense ratio (%)	*14.5*	*15.2*	*13.8*	-	14.4
Combined ratio (%) ◊	***82.9***	***93.9***	***102.6***	**-**	**94.0**
Earned controllable expense ratio (%) ◊	23.1	18.6	20.8	-	21.0

Notes:

UK & International comprises the UK (and European branches), Ireland and the Middle East

[1] *Preference dividends of £9m and coupons of £11m paid on 2017 issued restricted tier 1 securities*

COMBINED RATIO DETAIL

Group

£m unless stated		Current year		Prior year		2018 total	Current year	Prior year	2017 total
Net written premiums	*1*	**6,426**	*7*	**44**	*13*	**6,470**	**6,659**	**19**	**6,678**
Net earned premiums	*2*	6,506	*8*	31	*14*	6,537	6,590	15	6,605
Net incurred claims	*3*	(4,630)	*9*	150	*15*	(4,480)	(4,523)	173	(4,350)
Commissions	*4*	(870)	*10*	(16)	*16*	(886)	(883)	(28)	(911)
Operating expenses	*5*	(921)	*11*	-	*17*	(921)	(947)	(3)	(950)
Underwriting result ◊	*6*	**85**	*12*	**165**	*18*	**250**	**237**	**157**	**394**
CY attritional claims	*19*	(3,630)					(3,642)		
Weather claims	*20*	(242)					(168)		
Large losses	*21*	(758)					(713)		
Net incurred claims	*22*	(4,630)					(4,523)		
Loss ratio (%)				*=15 / 14*	*23*	*68.5*			65.9
Weather loss ratio				*=20 / 2*	*24*	*3.7*			*2.6*
Large loss ratio				*=21 / 2*	*25*	*11.6*			*10.8*
Current year attritional loss ratio ◊				*=19 / 2*	*26*	*55.8*			*55.3*
Prior year effect on loss ratio				*=23 - 24 - 25 - 26*	*27*	*(2.6)*			*(2.8)*
Commission ratio (%)				*=16 / 14*	*28*	13.6			13.7
Expense ratio (%)				*=17 / 14*	*29*	14.1			14.4
Combined ratio (%)◊				*=23 + 28 + 29*	*30*	**96.2**			**94.0**

Scandinavia

£m unless stated	Current year	Prior year	2018 total	Current year	Prior year	2017 total
Net written premiums	**1,811**	**6**	**1,817**	**1,837**	**(4)**	**1,833**
Net earned premiums	1,802	5	1,807	1,837	(1)	1,836
Net incurred claims	(1,308)	51	(1,257)	(1,258)	61	(1,197)
Commissions	(64)	-	(64)	(59)	-	(59)
Operating expenses	(248)	-	(248)	(265)	-	(265)
Underwriting result	**182**	**56**	**238**	**255**	**60**	**315**
CY attritional claims	(1,141)			(1,151)		
Weather claims	(7)			(1)		
Large losses	(160)			(106)		
Net incurred claims	(1,308)			(1,258)		
Loss ratio (%)			69.6			65.2
Weather loss ratio			*0.4*			*0.1*
Large loss ratio			*8.9*			*5.7*
Current year attritional loss ratio			*63.3*			*62.6*
Prior year effect on loss ratio			*(3.0)*			*(3.2)*
Commission ratio (%)			3.5			3.2
Expense ratio (%)			13.7			14.5
Combined ratio (%)			**86.8**			**82.9**

COMBINED RATIO DETAIL

Canada

£m unless stated	Current Year	Prior year	**2018 total**	Current year	Prior year	**2017 total**
Net written premiums	**1,652**	**-**	**1,652**	**1,619**	**-**	**1,619**
Net earned premiums	1,607	-	1,607	1,591	-	1,591
Net incurred claims	(1,194)	46	(1,148)	(1,084)	45	(1,039)
Commissions	(211)	-	(211)	(212)	-	(212)
Operating expenses	(223)	-	(223)	(239)	(3)	(242)
Underwriting result	**(21)**	**46**	**25**	**56**	**42**	**98**
CY attritional claims	(934)			(904)		
Weather claims	(110)			(58)		
Large losses	(150)			(122)		
Net incurred claims	(1,194)			(1,084)		
Loss ratio (%)			71.5			65.3
Weather loss ratio			*6.8*			*3.7*
Large loss ratio			*9.4*			*7.7*
Current year attritional loss ratio			*58.1*			*56.8*
Prior year effect on loss ratio			*(2.8)*			*(2.9)*
Commission ratio (%)			13.1			13.4
Expense ratio (%)			13.9			15.2
Combined ratio (%)			**98.5**			**93.9**

Total UK&I

£m unless stated	Current year	Prior year	**2018 total**	Current year	Prior year	**2017 total**
Net written premiums	**3,061**	**39**	**3,100**	**3,175**	**24**	**3,199**
Net earned premiums	3,104	25	3,129	3,179	17	3,196
Net incurred claims	(2,173)	59	(2,114)	(2,238)	39	(2,199)
Commissions	(595)	(16)	(611)	(610)	(28)	(638)
Operating expenses	(447)	-	(447)	(441)	-	(441)
Underwriting result	**(111)**	**68**	**(43)**	**(110)**	**28**	**(82)**
CY attritional claims	(1,556)			(1,593)		
Weather claims	(176)			(153)		
Large losses	(441)			(492)		
Net incurred claims	(2,173)			(2,238)		
Loss ratio (%)			67.6			*68.8*
Weather loss ratio			*5.7*			*4.8*
Large loss ratio			*14.2*			*15.5*
Current year attritional loss ratio			*50.1*			*50.1*
Prior year effect on loss ratio			*(2.4)*			(1.6)
Commission ratio (%)			19.5			20.0
Expense ratio (%)			14.3			13.8
Combined ratio (%)			**101.4**			**102.6**

APPENDIX II

Alternative Performance Measures

ALTERNATIVE PERFORMANCE MEASURES

Alternative performance measures (APMs) are complementary to measures defined within International Financial Reporting Standards (IFRS) and are used by management to explain the Group's business performance and financial position. They include common insurance industry metrics, as well as measures management and the Board consider are useful to enhance the understanding of its performance and allow meaningful comparisons between periods and business segments.

The APMs reported are monitored consistently across the Group to manage performance on a monthly basis. They are reviewed across various functions and levels and undergo rigorous internal quality assurance. Occasionally management may also report additional or adjusted APMs when circumstance requires to further enhance understanding. In 2018 additional proforma profitability measures have been included to show the result of our ongoing business, given the significant portfolio exits undertaken in the UK business and new reinsurance programmes.

APMs are identifiable within Group tables by the symbol ◊ and are defined in the below jargon buster. Further definition, commentary and outlook of those APMs considered important in measuring the delivery of the Group's strategic priorities can be found on pages 22 and 23 of the Annual Report and Accounts 2018. Detailed reconciliations of APMs to their nearest IFRS Income Statement equivalents and adjusted APMs can be found after the below jargon buster. APMs used to determine management and executive remuneration are identified below with ◊*

JARGON BUSTER

Term	Definition	APM	Reconciliation	
Affinity	Selling insurance through a partner's distribution network, usually to a group of similar customers e.g. store-card holders, alumni groups, unions and utility company customers.			
Attritional Loss Ratio	This is the underlying loss ratio (net incurred claims and claims handling expense as a proportion of net earned premium) of our business prior to volatile impacts from weather, large losses and prior-year reserve developments.	◊	1	R
Claims Frequency	Average number of claims per policy over the year.			
Claims Handling Expenses	The administrative cost of processing a claim (such as salary costs, costs of running claims centres, allocated share of the costs of head office units) which are separate to the cost of settling the claim itself with the policyholder.			
Claims Ratio (Loss Ratio)	Percentage of net earned premiums that is paid out in claims and claims handling expenses.	◊	1	V
Claims Reserve (Provision for Losses and Loss Adjustment Expenses)	A provision established to cover the estimated cost of claims payments and claims handling expenses that are still to be settled and incurred in respect of insurance cover provided to policyholders up to the reporting date.			
Claims Severity	Average cost of claims incurred over the period.			
Combined Operating Ratio (COR)	A measure of underwriting performance calculated on an 'earned' basis as follows: COR = loss ratio + commission ratio + expense ratio, where Loss ratio = net incurred claims / net earned premiums Commission ratio = commissions / net earned premiums Expense ratio = operating expenses / net earned premiums	◊*	1	Y
Commission	An amount paid to an intermediary such as a broker for introducing business to the Group.			
Constant Exchange (CFX)	Prior period comparative retranslated at current period exchange rates.	◊	4	N/A
Controllable Costs / Expenses	A measure of operating expenses incurred by the Group in undertaking business activities, predominantly underwriting and policy acquisition costs, excluding commission and premium related costs such as levies. They are adjusted to include claims handling costs that are reported within net claims incurred.	◊*	5	N/A
Current Year Underwriting Result	The profit or loss earned from business for which insurance cover has been provided during the current financial period.	◊	1	Q
Expense Ratio	Underwriting and policy expenses expressed as a percentage of net earned premium.	◊	1	X
Exposure	A measurement of risk we are exposed to through the premiums we have written. For example, in motor insurance one vehicle insured for one year is one unit of exposure.			
Financial Conduct Authority (FCA)	The regulatory authority with responsibility for the conduct of the UK financial services industry.			

<table>
<tr><th>Term</th><th colspan="2">Definition</th><th>APM</th><th colspan="2">Reconciliation</th></tr>
<tr><td>Gross Written Premium (GWP)</td><td colspan="2">Total revenue generated through sale of insurance products. This is before taking into account reinsurance and is stated irrespective of whether payment has been received.</td><td></td><td></td><td></td></tr>
<tr><td>IBNR (Incurred But Not Yet Reported)</td><td colspan="2">An estimated reserve for amounts owed to all valid claimants who have had a covered loss but have not yet reported it and for claims that have been reported but the cost is not yet known.</td><td></td><td></td><td></td></tr>
<tr><td>Interest Costs</td><td colspan="2">Interest costs represent the cost of Group debt excluding any debt buy back costs.</td><td>◊</td><td>1</td><td>O</td></tr>
<tr><td>Investment Result</td><td colspan="2">Investment result is the money we make from our investments on a management basis. It comprises the major component of net investment return, investment income, in addition to unwind of discount and investment expenses.</td><td>◊</td><td>1</td><td>AA</td></tr>
<tr><td>Large Losses</td><td colspan="2">Single claim or all claims arising from a single loss event with a net cost of £0.5m or higher.</td><td></td><td></td><td></td></tr>
<tr><td>Large Loss Ratio</td><td colspan="2">The large loss ratio is an expression of claims incurred in the period with a net cost of £0.5m or higher as a percentage of current year net earned premium over the same period.</td><td>◊</td><td>1</td><td>T</td></tr>
<tr><td>Net Asset Value (NAV) per Share</td><td colspan="2">Net asset value per share is calculated as closing shareholders' funds, less preference share capital, divided by the number of shares in issue at the end of the period.</td><td>◊</td><td>3</td><td>E</td></tr>
<tr><td>Net Earned Premium (NEP)</td><td colspan="2">The proportion of premium written, net of the cost of associated reinsurance, which represents the consideration charged to policyholders for providing insurance cover during the reporting period.</td><td></td><td></td><td></td></tr>
<tr><td>Net Incurred Claims (NIC)</td><td colspan="2">The total claims cost incurred in the period less any share that is borne by reinsurers. It includes both claims payments and movements in claims reserves and claims handling expenses in the period.</td><td></td><td></td><td></td></tr>
<tr><td>Net Written Premium (NWP)</td><td colspan="2">Premium written or processed in the period, irrespective of whether it has been paid, less the amount shared with reinsurers.</td><td></td><td></td><td></td></tr>
<tr><td rowspan="10">Non-Operating Charges</td><td colspan="2">Non-operating charges represent items that are excluded to arrive at the underlying profit after tax measure.</td><td>◊</td><td>1</td><td>AD</td></tr>
<tr><td>Item</td><td>Reason for classification</td><td rowspan="9">◊</td><td rowspan="9">1</td><td rowspan="9">AD</td></tr>
<tr><td>Amortisation of intangible assets</td><td>To allow meaningful assessment of segmental performance where similar internally generated assets are not capitalised</td></tr>
<tr><td>Pension administration and net interest costs</td><td>Costs that are dependent on the level of defined benefit pension scheme plan funding and arise from servicing past pension commitments</td></tr>
<tr><td>Realised and unrealised gains and losses on investments / foreign exchange gains and losses</td><td>To remove the impact of market volatility and investment rebalancing activity</td></tr>
<tr><td>Gains and losses arising from the disposal of businesses and impairment of goodwill</td><td>To allow assessment of the performance of ongoing business activities</td></tr>
<tr><td>Regulatory costs in respect of customer redress</td><td>To allow assessment of the performance of ongoing business activities</td></tr>
<tr><td>Reorganisation</td><td>To allow assessment of the performance of ongoing business activities</td></tr>
<tr><td>Impairment of intangible assets</td><td>Where the impairment arises from restructuring activities</td></tr>
<tr><td>Debt buy back costs</td><td>To allow meaningful assessment of ongoing finance costs</td></tr>
</table>

Term	Definition	APM	Reconciliation	
Operating Profit	Operating profit is profit before tax less non-operating charges.	◊	1	AC
Payout Ratio	Ordinary dividends expressed as a percentage of underlying profit after tax attributable to ordinary shareholders.			
Policies in Force	The number of active insurance policies for which Group is providing cover.			
Prior Year Underwriting Result	Updates to premium, claims, commission and expense estimates relating to prior years.	◊	1	P
Proforma	Adjusted profitability measures to enhance understanding of the reported result and of future potential performance. Proforma profitability metrics show; - The impact of the new regional reinsurance programmes - The results for our ongoing business given the significant portfolio exits undertaken in the UK business Regional results after allocation of group volatility cover reinsurance premiums and claims recoveries.	◊	7	
Property and Casualty (P&C) (Non-Life Insurance or General Insurance)	Property insurance covers loss or damage through fire, theft, floods, storms and other specified risks. Casualty insurance primarily covers losses arising from accidents that cause injury to other people or damage to the property of others.			
Prudential Regulation Authority (PRA)	The regulatory authority with responsibility for the prudential regulation and supervision of the UK financial services industry.			
Pull to par	The movement of a bond's price toward its face value as it approaches its maturity date.			
Rate	The price of a unit of insurance based on a standard risk for one year. Actual premium charged to the policyholder may differ from the rate due to individual risk characteristics and marketing discounts.			
Reinsurance	The practice whereby part or all of the risk accepted is transferred to another insurer (the reinsurer).			
Reported Exchange (RFX)	Prior period comparative translated at exchange rates applicable at that time.			
Return on Equity	Profit attributable to ordinary shareholders (profit after tax excluding non-controlling interests, coupon on tier 1 notes and preference dividend) expressed in relation to opening ordinary shareholders' funds (opening ordinary shareholders funds less preference share capital).	◊	2	F
Return on Tangible Equity	Profit attributable to ordinary shareholders (profit after tax excluding non-controlling interests, coupon on tier 1 notes and preference dividend) expressed in relation to opening tangible net asset value.	◊	2	H
Solvency II	Capital adequacy regime for the European insurance industry which commenced in 2016 and is based on a set of EU wide capital requirements and risk management standards.			
Scrip Dividend	Where shareholders choose to receive the dividend in the form of additional shares rather than cash. The Group would issue new shares to meet the scrip demand.			
Tangible Net Asset Value (TNAV)	Tangible net asset value comprises shareholders' equity, less preference share capital and goodwill and intangible assets.	◊*	3	C
Tangible Net Asset Value (TNAV) per Share	Tangible net asset value, divided by the number of shares in issue at the end of the period.	◊	3	F
Underwriting Result	A measure of underwriting performance calculated as net earned premium less net claims and underwriting and policy acquisition costs.	◊	1	Z
Underlying Tax Rate	The underlying Core Group tax rate mainly comprising the local statutory tax rates in the Group's territories applied to underlying regional profits (operating profits less interest costs).	◊	6	A

Term	Definition	APM	Reconciliation	
Underlying Profit after Tax	This provides a key measure of shareholder value and one that informs overall valuation in the insurance sector. It takes profit after tax, excluding the proportion that is attributable to non-controlling interests, preference shareholders and Tier 1 note holders and adds back non-operating charges (reasons for exclusion above) before adjusting for the tax difference between effective and underlying rate.	◊*	2	B
Underlying Return on Tangible Equity	A key measure of shareholder value and one that informs overall valuation in the insurance sector. Underlying profit after tax expressed in relation to opening tangible net asset value.	◊*	2	I
Underlying Return on Equity	Underlying profit after tax expressed in relation to opening shareholders' funds excluding preference share capital.	◊	2	G
Underlying Earnings per Share (EPS)	A key measure of the underlying earnings power of the group as it excludes shorter-term and temporary changes, such as restructuring costs. Underlying earnings per share is calculated as underlying profit after tax divided by the weighted average number of shares in issue during the period.	◊	2	K
Unearned Premium	The portion of a premium that relates to future periods, for which protection has not yet been provided, irrespective of whether the premium has been paid or not.			
Weather Losses	Weather claims incurred with a net cost of £0.5m or higher and losses of less than £0.5m where extreme weather has been identified over an extended period.			
Weather Loss Ratio	The weather loss ratio is an expression of weather losses in the period with a net cost of £0.5m or higher as a percentage of earned premium.	◊	1	S
Yield	Rate of return on an investment in percentage terms. The dividend payable on a share expressed as a percentage of the market price.			

ALTERNATIVE PERFORMANCE MEASURES RECONCILIATIONS

1. IFRS reconciliation to management P&L
For the 12 months ended 31 December 2018

£'m	IFRS		Underwriting result	Investment result	Central costs	Operating result	Non-operating charges	Profit before tax
			Management					
Income								
Gross written premiums	7,467		7,467					
Less: reinsurance premiums	(997)		(997)					
Net written premiums	6,470		6,470					
Change in the gross provision for unearned premiums	61		61					
Less: change in provision for unearned reinsurance premiums	6		6					
Change in provision for unearned premiums	67		67					
Net earned premiums, analysed as	6,537	A	6,537					
Current year		B	6,506					
Prior year		C	31					
			6,537					
Investment income	322	D		322				
Realised gains on investments	22						22	
Unrealised gains / (losses)	9						9	
Impairments	(10)						(10)	
Net investment return	343							
Other insurance income	138	E	138					
Other operating income	138							
Total income	7,018							
Expenses								
Gross claims incurred	(5,023)		(5,023)					
Less: claims recoveries from reinsurers	543		543					
Net claims, analysed as	(4,480)	F	(4,480)					
Attritional		G	(3,630)					
Weather		H	(242)					
Large		I	(758)					
Prior year		J	150					
			(4,480)					
Earned CY commission	(870)	K	(870)					
Earned PY commission	(16)	L	(16)					
Earned CY operating expenses	(1,059)	M	(1,059)					
Earned PY operating expenses	-	N	-					
Underwriting and policy acquisition costs	(1,945)		(1,945)					
Unwind of discount	(33)			(33)				
Investment expenses	(14)			(14)				
Central expenses	(9)				(9)			
Amortisation of intangible assets	(13)						(13)	
Impairment of goodwill	(7)						(7)	
Pension net interest and administration costs	(6)						(6)	
Regulatory costs	(4)						(4)	
Foreign exchange losses	(1)						(1)	
Other operating expenses	(54)							
	(6,512)							
Interest costs	(25)	O					(25)	
Finance costs	(25)						(25)	
Acquisitions and disposals	(2)						(2)	
Net share of profit after tax of associates	1				1			
Profit before tax	480		250	275	(8)	517	(37)	480
Income tax expense	(108)		Z	AA	AB	AC	AD	
Profit for the year	372							
	C+J+L+N	P	165	PY Underwriting				
	Z - P	Q	85	CY Underwriting				
			250					

Attritional loss ratio	G/B	R	55.8%
Weather loss ratio	H/B	S	3.7%
Large loss ratio	I/B	T	11.6%
Prior year effect on loss ratio	V-R-S-T	U	(2.6%)
Loss ratio	F/A	V	68.5%
Commission ratio	(K+L)/A	W	13.6%
Expense ratio	(E+M+N)/A	X	14.1%
Combined operating ratio	V+W+X	Y	96.2%

1. IFRS reconciliation to management P&L
For the 12 months ended 31 December 2017

£'m	IFRS		Underwriting result	Investment result	Central costs	Operating result	Non-operating charges	Profit before tax
					Management			
Income								
Gross written premiums	7,599		7,599					
Less: reinsurance premiums	(921)		(921)					
Net written premiums	6,678		6,678					
Change in the gross provision for unearned premiums	(16)		(16)					
Less: change in provision for unearned reinsurance premiums	(57)		(57)					
Change in provision for unearned premiums	(73)		(73)					
Net earned premiums, analysed as	6,605	A	6,605					
Current year		B	6,590					
Prior year		C	15					
			6,605					
Investment income	331	D		331				
Realised gains on investments	19						19	
Gains / (losses) on forex derivatives	(5)						(5)	
Unrealised gains / (losses)	1						1	
Impairments	4						4	
Net investment return	350							
Other insurance income	146	E	146					
Other non-insurance income	4				4			
Other operating income	150							
Total income	7,105							
Expenses								
Gross claims incurred	(5,136)		(5,136)					
Less: claims recoveries from reinsurers	786		786					
Net claims, analysed as	(4,350)	F	(4,350)					
Attritional		G	(3,642)					
Weather		H	(168)					
Large		I	(713)					
Prior year		J	173					
			(4,350)					
Earned CY commission	(883)	K	(883)					
Earned PY commission	(28)	L	(28)					
Earned CY operating expenses	(1,093)	M	(1,093)					
Earned PY operating expenses	(3)	N	(3)					
Underwriting and policy acquisition costs	(2,007)		(2,007)					
Unwind of discount	(34)			(34)				
Investment expenses	(13)			(13)				
Non-insurance expenses	(3)				(3)			
Central expenses	(17)				(17)			
Amortisation of intangible assets	(15)						(15)	
Pension net interest and administration costs	(7)						(7)	
Reorganisation costs	(155)						(155)	
Foreign exchange losses	(1)						(1)	
Impairment of intangibles	(23)						(23)	
Other operating expenses	(234)							
	(6,625)							
Interest costs	(43)	O					(43)	
Debt buy back costs	(59)						(59)	
Finance costs	(102)						(102)	
Acquisitions and disposals	69						69	
Net share of profit after tax of associates	1				1			
Profit before tax	448		394	284	(15)	663	(215)	448
Income tax expense	(126)		Z	AA	AB	AC	AD	
Profit for the year	322							
	C+J+L+N	P	157	PY Underwriting				
	Z - P	Q	237	CY Underwriting				
			394					
Attritional loss ratio	G/B	R	55.3%					
Weather loss ratio	H/B	S	2.6%					
Large loss ratio	I/B	T	10.8%					
Prior year effect on loss ratio	V-R-S-T	U	(2.8%)					
Loss ratio	F/A	V	65.9%					
Commission ratio	(K+L)/A	W	13.7%					
Expense ratio	(E+M+N)/A	X	14.4%					
Combined operating ratio	V+W+X	Y	94.0%					

2. Metric calculations

			2018 £m	2017 £m
		Profit after tax	372	322
		Less: non-controlling interest	(23)	(33)
Note 21		Less: coupon on 2017 issued restricted tier 1 instrument	(14)	(11)
Note 21		Less: preference dividend	(9)	(9)
	A	**Profit attributable to ordinary shareholders**	**326**	**269**
APM Rec 1		Add: non-operating charges	37	215
		Add: non-controlling interest share of non-operating charges	-	13
APM Rec 1		Less: interest costs	(25)	(43)
APM Rec 6		Add: underlying tax differential	12	(10)
	B	**Underlying profit after tax attributable to ordinary shareholders**	**350**	**444**
		Opening shareholders' funds	**3,653**	**3,715**
		Less: preference share capital	(125)	(125)
	C	**Opening ordinary shareholders' funds**	**3,528**	**3,590**
Note 23		Less: opening goodwill and intangibles	(763)	(728)
	D	**Opening tangible ordinary shareholders' funds**	**2,765**	**2,862**
	E	**Weighted average no. share issue during the period (un-diluted)**	**1,026**	**1,021**
		Return on equity		
A/C	**F**	Reported	**9.2%**	**7.5%**
B/C	**G**	Underlying	**9.9%**	**12.4%**
		Return on tangible equity		
A/D	**H**	Reported	**11.8%**	**9.4%**
B/D	**I**	Underlying	**12.6%**	**15.5%**
		Earnings per share		
A/E	**J**	Basic earnings per share	**31.8**	**26.3**
B/E	**K**	Underlying earnings per share	**34.1**	**43.5**

3. Balance sheet reconciliations

			2018 £m	2017 £m
	A	Closing shareholders' funds	**3,786**	**3,653**
		Less: preference share capital	(125)	(125)
	B	**Ordinary shareholders funds**	**3,661**	**3,528**
Note 23		Less: closing goodwill and intangibles	(794)	(763)
	C	**Tangible net asset value**	**2,867**	**2,765**
	D	**Shares in issue at the period end**	**1,027**	**1,023**
B/D	**E**	**Net asset value per share**	**357**	**345**
C/D	**F**	**Tangible net asset value per share**	**279**	**270**

4. Net written premium movement and constant exchange

			2018 £m	2017 £m
Note 9	**A**	**Net written premiums**	**6,470**	**6,678**
		Year-on-year movement	(208)	397
		Comprised of:		
		Volume change including portfolio actions and standard reinsurance	(153)	(25)
		Rate increases	238	163
	B	Additional reinsurance changes	(178)	-
	C	**Movement at constant exchange**	**(93)**	**138**
	D	Foreign exchange	(115)	259
		Total movement	**(208)**	**397**
C/(2017A-D)	**E**	**% movement at constant exchange**	**(1)%**	**2%**
(C-B)/(2017A-D)	**F**	**% movement at constant exchange less reinsurance**	**1%**	

5. Controllable expenses			2018 £m	2017 £m
		Underwriting and policy admin costs	**(1,945)**	**(2,007)**
APM Rec 1		Less: commission	886	911
		Less: non controllable premium related costs eg levies	139	130
		Add: claims expenses within net claims	(397)	(406)
		Add: other	(26)	(23)
	A	**Written controllable expense base**	**(1,343)**	**(1,395)**
		Less: controllable deferred acquisition costs	11	8
	B	**Earned controllable expense base**	**(1,332)**	**(1,387)**
	C	Add: investment expenses	(14)	(13)
	D	Add: central costs	(9)	(17)
A+C+D	**E**	**Total written controllable expense base**	**(1,366)**	**(1,425)**
B+C+D	**F**	**Total earned controllable expense base**	**(1,355)**	**(1,417)**
	G	Net written premiums	6,470	6,678
	H	Net earned premiums	6,537	6,605
A/C	**I**	**Written controllable expense ratio**	**20.8%**	**20.9%**
E/C	**J**	**Total written controllable expense ratio**	**21.1%**	**21.3%**
B/D	**K**	**Earned controllable expense ratio**	**20.4%**	**21.0%**
F/D	**L**	**Total earned controllable expense ratio**	**20.8%**	**21.5%**

6. Underlying tax rate			2018 %	2017 %
		Effective tax rate (ETR)	**23**	**28**
		Less tax effect of:		
		Withholding tax on intercompany dividend	0	(5)
		Unrecognised tax losses	(2)	(1)
		Underlying versus IFRS regional profit mix	0	(1)
		One off impact of Swedish law change	(1)	0
		Other	0	1
	A	**Underlying tax rate**	**20**	**22**
			£m	**£m**
APM Rec 1		Operating profit	**517**	663
APM Rec 1		Less interest costs	(25)	(43)
	B	**Underlying profit before tax**	492	620
AxB	**C**	**Underlying tax**	**(96)**	**(136)**
		Tax	(108)	(126)
	D	**Underlying tax differential**	**12**	**(10)**

7. APM proformas

Occasionally management report additional or adjusted APMs when circumstance requires to further enhance understanding of reported results and of future performance potential. Additional proforma profitability metrics provided show:

- The impact of the new 2019 regional reinsurance programmes
- The results for our ongoing business given the portfolio exits undertaken in the UK business.

UK proforma for exits

The UK proforma adjusts the reported result for the estimated impact of the strategic portfolio exits (£195m NEP) primarily including London Market portfolios and a number of UK MGA schemes and the impact of new reinsurance (assumed to be broadly neutral in the UK when exit adjustments are taken into account).

			UK 2018	**UK & International** 2018
Reported				
	A	NEP	2,629	3,129
	B	Underwriting result	(106)	(43)
(B/A)-1		**COR**	**104.0%**	**101.4%**
	C	**Operating result**	**29**	**105**
UK exits				
	D	Exited NEP	(195)	(195)
	E	Underwriting impact	120	120
Exits proforma				
A+D	**F**	NEP	2,434	2,934
B+E	**G**	Underwriting result	14	77
(G/F)-1		**COR**	**99.4%**	**97.4%**
C+E		**Operating result**	**149**	**225**

Canada proforma for GVC and new reinsurance

Proforma adjusts Canadian reported result to include share of GVC reinsurance premiums and claims recoveries and the impact of new reinsurance programmes.

			2018
Reported			
	A	NEP	1,607
	B	**Underwriting result**	**25**
(B/A)-1		**COR**	**98.5%**
	C	**Operating result**	**84**
GVC allocation			
	D	NEP allocation	(11)
		Recoveries allocation	25
	E	Underwriting impact	14
GVC proforma			
A+D	**F**	NEP	1,596
B+E	**G**	**Underwriting result**	**39**
(G/F)-1		**COR**	**97.6%**
		Operating result	**98**
New reinsurance			
	H	Incremental cost	(1)
	J	Underwriting impact	14
GVC and new reinsurance proforma			
A+D+H	**K**	NEP	1,595
B+E+J	**L**	**Underwriting result**	**53**
(L/K)-1		**COR**	**96.7%**
C+E+J		**Operating result**	**112**

Group proforma for UK exits and new reinsurance

The Group reported result adjusted for the estimated impact of UK exits and new regional reinsurance programmes.

			2018	2017	2017 CFX	2018 v CFX
			S		T	(S-T)/T
Group reported						
	A	NEP	6,537	6,605	6,491	
	B	**Underwriting result**	**250**	**394**	**377**	**(33%)**
(B/A)-1		**COR**	**96.2%**	**94.0%**	**94.2%**	
	C	**Operating result**	**517**	**663**	**644**	**(19%)**
	D	Underlying profit after tax	350	444	430	
	E	Weighted average shares	1,026	1,021	1,021	
D/E		**Underlying EPS**	**34.1p**	**43.5p**	**42.1p**	**(19%)**
		UK exits				
	F	Exited NEP	(195)			
	G	Underwriting impact	82	(includes £(37)m of forgone GVC recoveries for exits)		
	H	Tax thereon (10%)	(8)			
		New reinsurance				
	J	Incremental cost	(12)	(includes £(11)m for Scandinavia)		
	K	Underwriting impact	12	(includes £(2)m for Scandinavia)		
	L	Tax thereon (22% and 27%)	(4)			
Group exit and new reinsurance proforma						
A+F+J	**M**	NEP	6,330			
B+G+K	**N**	Underwriting result	344			
(N/M)-1		**COR**	**94.6%**			
C+G+K	**P**	**Operating result**	**611**			
D+G+H+ K+L	**Q**	Underlying profit after tax	432			
	R	Weighted average shares	1,026			
Q/R		**Underlying EPS**	**42.1p**			

Note: the impact of new UK reinsurance covers are assumed to be broadly neutral when exits taken into account.

REPORTING AND DIVIDEND TIMETABLE

Reporting:

Q1 2019 trading update	9 May 2019

Dividend:

Final ordinary dividend for the year ended 31 December 2018:

Announcement date	28 February 2019
Ex-dividend date	7 March 2019
Record date	8 March 2019
Dividend payment date	17 May 2019

1st preference dividend:

Announcement date	28 February 2019
Ex-dividend date	7 March 2019
Record date	8 March 2019
Dividend payment date	1 April 2019

Note: The final ordinary dividend is conditional upon the directors being satisfied, in their absolute discretion, that the payment would not breach any legal or regulatory requirements, including Solvency II regulatory capital requirements.

PREFERENCE SHARE DIVIDEND

In accordance with the original subscription terms, qualifying registered holders of the 7 3/8 percent cumulative irredeemable preference shares of £1 each will receive the first preference dividend at a rate of 3.6875p per share.

OTHER INFORMATION

LEI number: 549300HOGQ7E0TY86138

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Further information

A live webcast of the analyst presentation, including the question and answer session, will be broadcast on the website at 08:30am on 28 February 2019. A webcast and transcript of the presentation 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.