NEWS

RSA Insurance Group plc
Q1 2019 Trading Update

9 May 2019

RSA reports good progress in Q1 2019

Net written premiums up 3% versus the prior year (flat underlying[1])

Weather, large loss, attritional loss and controllable expense ratios all improved vs Q1 2018, partially offset by weaker prior year development

Stephen Hester, RSA Group Chief Executive, commented:

"RSA's Q1 results are in-line with our demanding plans for the period. While still early in the year, extensive underwriting actions are also on track, responding to 2018's challenges. We remain focused on delivering positively for customers and shareholders in 2019."

Trading update

Market conditions

Insurance market conditions are largely unchanged versus 2018. Market pricing is competitive overall, although it is accommodating underwriting actions in those portfolios responding to industry losses.

Financial markets have produced some headwinds in Q1. The reduction in bond yields and credit spreads, if sustained, has an impact on future investment income and a short term volatility impact on UK pension accounting. Stronger sterling FX rates and a weaker Swedish Krona are a headwind in nominal terms for RSA versus the prior year (impact circa 3% in Q1 at EPS level).

Premiums

- Group net written premiums of £1,568m were up 3% vs Q1 2018 as reported. On an adjusted basis[1], they were broadly flat and in line with our Q1 plans. This takes account of planned exits, FX movements and reinsurance changes
- Our focus in 2019 is to continue improving for customers, to grow our business where underwriting conditions permit, and to re-price and underwrite in those business lines which saw difficult results in 2018, as well as completing the portfolio exits announced
- In Scandinavia, Q1 saw 3%[2] premium growth at constant FX driven by our Personal Lines businesses. Volume and rate both contributed. In Commercial Lines, premiums increased by 2%[1]
- In Canada, premiums increased 8%[1] in local currency driven by pricing increases and continued volume growth in Personal Lines, while Commercial Lines saw a premium contraction reflecting planned underwriting actions in loss affected lines
- In UK & International, premium income fell 5%[1] which was broadly in line with our plans and reflected the impact of pricing and underwriting actions in 2018 and in 2019 to date. We are generally achieving targeted rate and other underwriting actions so far in 2019.

Profitability[3]

- Operating profit for the first quarter was up on Q1 2018 at constant FX and in line on a reported basis, with an improved combined ratio and slightly lower investment income (as forecast)
- Underwriting profit components:
  - Group weather costs were 3.2% of net earned premiums. This was 1.9 points lower than Q1 2018 and in line with the 5 year average. Weather costs were significantly higher than prior year in Canada but lower in the UK & International division
  - The large loss ratio improved to 8.5% (Q1 2018: 9.7%) driven by better UK results
  - The attritional loss ratio improved slightly versus Q1 last year
  - The controllable expense ratio fell again
  - Prior year development was broadly flat and lower than Q1 last year as positive run-off from prior years was offset by a strengthening of 2018 reserves
- Investment income was consistent with the range guided in February 2019
- Exit portfolios (expected to run-off proportionately during 2019), generated a modest loss in the period. Additional disclosures will be provided for exit portfolios in 2019.

Balance sheet and capital

- Tangible shareholders' equity at 31 March 2019 was £2.9bn (31 December 2018: £2.9bn) and tangible net asset value per share was 279p (31 December 2018: 279p)
- Balance sheet unrealised gains were £363m at 30 March 2019, up £113m since year end. The movement was mainly a function of lower bond yields and tightened credit spreads
- The Group's Solvency II coverage ratio was 164%[4] at 31 March 2019 (31 December 2018: 170%). The reduction reflects long-dated sterling bond spread volatility on discounted pension values, as well as FX and bond yield movements. Organic capital generation was positive and above plan. A call notice has been issued for the remaining £39m 9.375% 2039 subordinated debt which will take effect in Q2.

1 At constant FX, adjusted for 2018 GVC renewal, 2019 reinsurance changes and portfolio exits
2 At constant FX, adjusted for 2019 reinsurance changes and premium restatements
3 All 2019 profitability metrics adjusted to exclude portfolio exits
4 The Solvency II capital position at 31 March 2019 is estimated
5 The Group uses Alternative Performance Measures, including certain underlying measures, to help explain business performance and financial position. These measures have been calculated consistently with those for the year ended 31 December 2018 and reconciliations will be provided with the condensed consolidated financial statements for the period ended 30 June 2019.

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Conference call for analysts and investors
A conference call for analysts and investors will be held at 08:30am on Thursday 9 May to discuss the Q1 Trading Update. Participants should call +44 (0)800 3589473 (toll free) or +44 (0)33 33000804, using participant pin code 19451370#. A recording of the call will be available via the Company website (www.rsagroup.com).

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