2020 Interim Results Presentation

30 July 2020

NOT FOR RELEASE, PUBLICATION OR DISTRIBUTION IN WHOLE OR IN PART IN, INTO OR FROM ANY JURISDICTION WHERE TO DO SO WOULD CONSTITUTE A VIOLATION OF THE RELEVANT LAWS OR REGULATIONS OF THAT JURISDICTION

This presentation 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 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 (including changes related to capital and solvency requirements), 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 presentation 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 presentation should be construed as a profit forecast.

Basis of presentation

This presentation uses alternative performance measures, including certain underlying measures, to help explain business performance and financial position. Further information on these is set out in the 2020 Interim Results announcement.

Agenda

1. Introduction
2. Strategy & business improvement actions
3. Regional update
4. 2020 Interim Results
5. Q&A

Introduction

First half 2020 presented unique global challenges

Our priorities have been:

- ☑ To sustain customer service and support
- ☑ To operate securely and near ‘normally’ from home, safeguarding our people
- ☑ To secure RSA’s resilience for all stakeholders
- ☑ To ensure we remain focused on delivering our plans and to perform well in challenging economic times

2020 Interim Results highlights[1]

1. Underwriting profit up 33%, COR a record 92.2%, underlying EPS 23.5p up 12%, underlying ROTE 16.7%

2. Result driven by underwriting improvement:
   - Scandi COR 83.2%, Canada 93.2%, UK&I 93.6%
   - Weather costs above prior year, large & attritional losses better (ex COVID)

3. Focus on delivering our plans continues, including underwriting improvement and cost control while facing into a slow economic environment

4. No interim dividend proposed reflecting COVID-19 regulatory consideration and market uncertainties. Intent to resume as soon as prudent, expected to be by year end

Note (1): underlying measures, ex. exits

COVID-19 impact on RSA

1. Net impact on RSA H1 operating profit broadly neutral. Consisting of:
   - Lost contribution from lower premiums (c.£110m NWP)
   - Provision for COVID-19 claims £82m gross, £56m net
   - “BAU” frequency benefits £129m
   - Increase in ‘margin’ £25m
   - £6m reduction in investment income
2. Premium trends and claims frequency starting to normalise in June but H2 uncertainty remains. UK ‘BI test case’ verdict expected in Q3
3. Impacts on investment portfolio/balance sheet:

- £54m ‘below the line’ charges
- Solvency II ratio 172%[1] (158%[1] post dividend accruals); COVID-19 market impact 8 points net

Note (1): Solvency II position at 30 June 2020 is estimated

Strategy & business improvement actions

Update on 2020 priorities

☑ Sustain high performing business areas:
- H1 Personal Lines COR 86.0% (H1 ’19: 89.9%) – 55% of NWP
- Growth impacted by COVID-19

☑ Continue to improve Commercial Lines underwriting[1]:
- H1 Commercial Lines COR 96.8% (H1’19: 98.8%) – 45% of NWP
- Attritional loss ratio improved 1.9 points (ex-COVID)
- Large losses improved 1.1 points (ex-COVID)
- Exits near complete but recording some tail losses

☑ Cost efficiency remains a priority:
- UK £50m[2] cost savings achieved; more targeted
- Group written controllable costs down 1% vs. H1 19

[1] Ex. UK/ London Market exit portfolios
[2] Written controllable costs vs. 2018 baseline (gross of inflation)

Strategy is ‘pursuit of outperformance’ through…

1. Strong customer franchises
2. Disciplined business focus, majoring on strengths, seeking to avoid mistakes
3. A balance sheet that protects customers and the company
4. Intense and accomplished operational delivery – improving customer service, underwriting and costs

Performance improvement levers

1

Advance customer service

- Digital platforms for convenience, flexibility and speed
- Increase customer satisfaction and retention
- Sharpen customer acquisition tools

2

Further improve underwriting

- Elevate underwriting disciplines
- Ongoing 'BAU' portfolio re-underwriting
- Invest in analytics, tools and technology
- Optimise reinsurance

3

Drive cost efficiency

- Deploy 'lean', robotics & process redesign
- Optimise overheads & procurement
- Site consolidation & outsourcing
- Automation

Key enablers:

- Technology
- Focused performance culture

Targets

'Best-in-class' COR ambitions
- Scandinavia < 85%
- UK & International < 94%
- Canada < 94%

Earnings
- High quality, repeatable earnings
- Attractive EPS increases
- ROTE 13-17% or better

Dividend
- Regular payout 50-60%, plus additional payouts as available and prudent

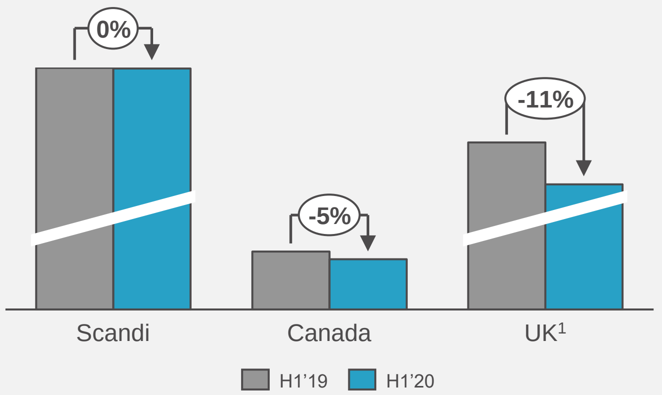
Underpinned by strong balance sheet and capital management

Customer metrics stable overall, ex. COVID-19 impacts

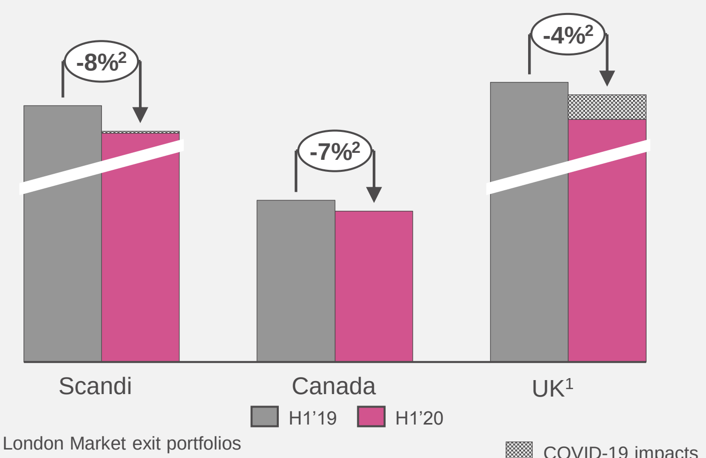
Customer retention (%)

Note: Retention excluded the impact of COVID-19

Personal Lines – policies in force



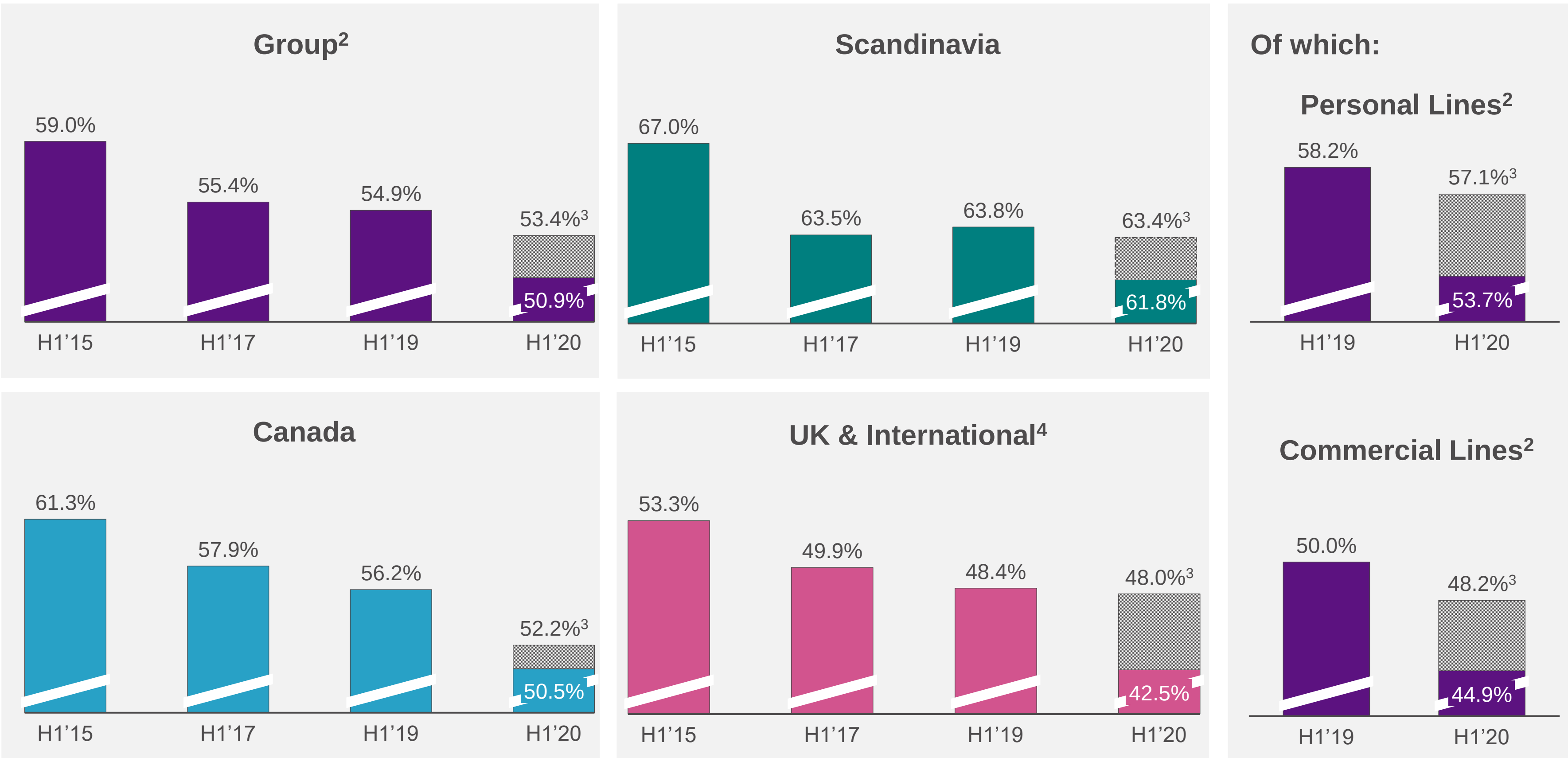
Commercial Lines – volumes



[1] Ex. UK/ London Market exit portfolios
[2] Excluding impacts of COVID-19

Attritional loss ratio improving again

Attritional loss ratios (%)[1]

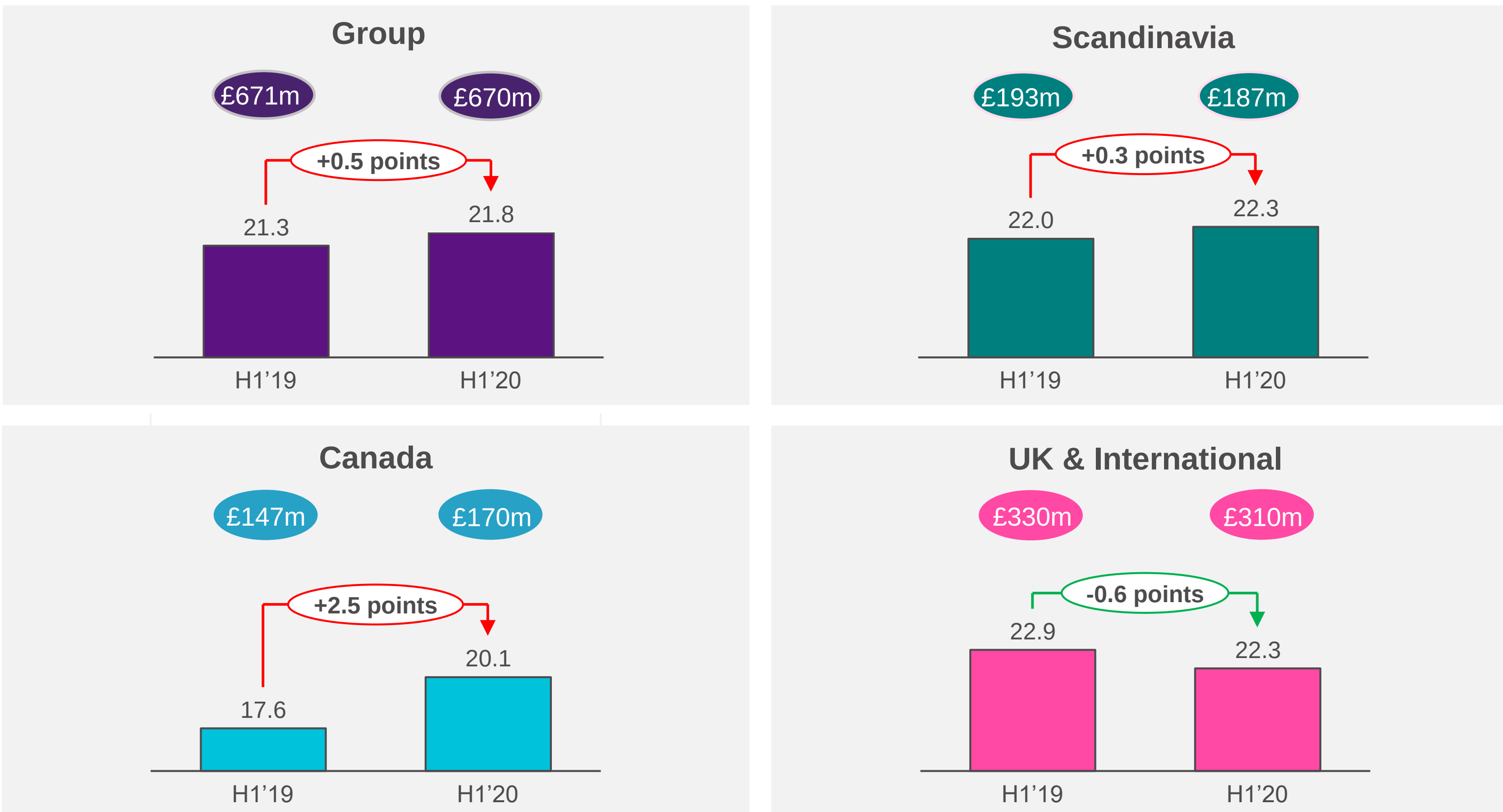


[1] 2015 and 2017 loss ratios restated for reinsurance changes
[2] At constant FX and ex. disposals where relevant
[3] Excluding the impacts of COVID-19
[4] Excluding UK/London Market portfolio exits

COVID-19 impacts

Cost competitiveness remains key part of strategy

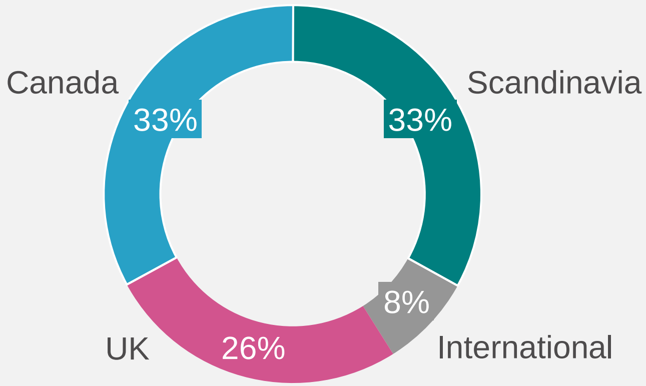
- Goal is controllable cost ratios below 20% in every business
  - COVID-19 impact on top line means more to do on cost



Note: Costs and cost ratios shown on an earned basis, excluding UK/London Market exit portfolios. Group at constant FX.

Underwriting – Personal Lines

55% of Group Net Written Premiums[1]



Summary results		
	H1'20[2]	**H1'19[2]**
Net Written Premiums	1,711	1,754
Attritional loss ratio (%)	53.7%	58.2%
Weather ratio (%)	2.6%	2.9%
COR (%)	86.0%	89.8%
Current year COR (%)	86.2%	90.7%

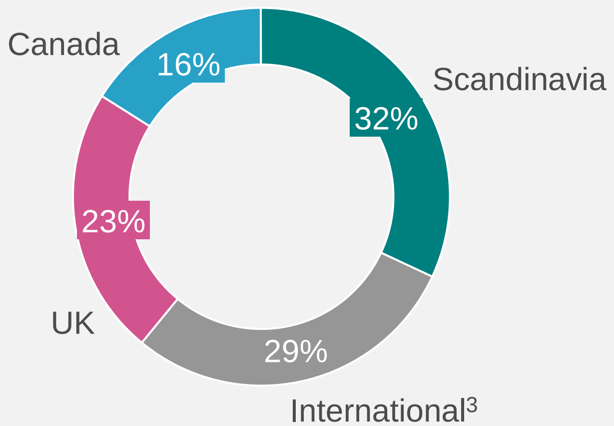
Key points:

- Premium growth in most profitable lines e.g. Sweden +2%[2] and Johnson +12%[2]
- Strong underwriting results in every region:
  - Scandinavia: Sweden very strong; Denmark good and improvement continues; Norway improved
  - Canada: Johnson very strong and improved; Personal broker volumes down with performance now hitting target profitability. Strong rate carried across all portfolios
  - UK & International: Volume reduction driven by lower new business in Personal Motor. UK Household volumes ahead of Plan and retention sharply up
- COVID-19 impact: £67m NWP drop, 2.4% COR benefit, 3.4% attritional benefit

[1] Split based on HY 2020 Group NWP (ex. exits)
[2] At constant FX and ex. UK/ London Market exit portfolios

Underwriting – Commercial Lines

45% of Group Net Written Premiums[1]



Summary results

	H1'20[2]	H1'19[2]
Net Written Premiums	1,388	1,444
Attritional loss ratio (%)	44.9%	50.0%
Large loss ratio (%)	19.3%	18.4%
Weather ratio (%)	3.9%	3.1%
COR (%)	96.8%	98.8%
Current year COR (%)	97.9%	99.7%

Key points:

- Net written premiums down, part as planned, part COVID-19
- Attritional loss ratios improved across all major geographies
- Large losses improved ex-COVID (c.2 points related to COVID-19), expect further improvements as underwriting and pricing actions earn through
- Underwriting performance improved significantly in Denmark. UK impacted by COVID-19 related losses but underlying as planned. Canada still disappointing
- COVID-19 impact: £42m NWP drop, 3.3% attritional benefit and c.2% large cost

[1] Split based on HY 2020 Group NWP (ex. exits)
[2] At constant FX and ex. UK/ London Market exit portfolios
[3] Ireland, Middle East, London Market and European branches

COVID-19 underwriting impacts

1. Premiums reduced by combination of coverage changes, refunds, price capping and volume impacts – c.£110m NWP

2. H1 provision for COVID-19 claims £56m net (£82m gross):
   - BI £47m (inc. IBNR), Travel £26m gross and Wedding £9m
   - Of which UK&I £54m net and Scandi £2m

3. "Bau" claims frequency benefits booked of £129m after provision for pattern uncertainty. Frequency starting to normalise as lockdowns ease. Margin increased by £25m as a further reserve

4. Outlook for H2 not clear. Expect top line pressure from soft economies, could be risk from "second wave" or local lockdowns. Frequency benefits should normalise during Q3. UK "BI test case" in focus for Q3 also

Regional update

Scandinavia

Progress	H1'19	H1'20	Covid-19 impact	Ambition
COR	89.1%	**83.2%**	**1.5 pts**	<85%
Current year COR	90.2%	**86.2%**	**1.5 pts**	
Attritional loss ratio	63.8%	**61.8%**	**1.6 pts**	
Controllable expense ratio[1]	22.0%	**22.3%**	**N/a**	<20%

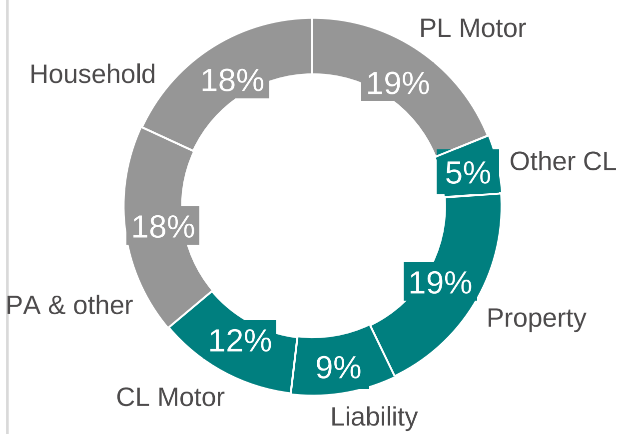
£1.0bn

H1'20 Scandi NWP

-3% vs. H1'19
-1% at CFX

Medium term outlook:
+1-4% CFX

Split of Scandinavia NWP



Key points

- RSA's most valuable business
- Results significantly improved vs. H1'19
- Net written premiums down 1%[2] as planned, Danish Commercial renewals the key driver
- Excellent Personal Lines performance continues – COR 78.4%
- Improvement areas showing encouraging results:
  - Danish Commercial Lines showing significant improvement in underlying loss ratios, but not yet declaring victory – COR 93.7% (H1'19: 113.9%)
  - Norway continued loss ratio improvement
- Costs flat but ratio increased slightly – more work expected in H2

[1] Earned underwriting controllable cost ratio
[2] At constant FX

Canada

Progress	H1’19	H1’20	Covid-19 impact	Ambition
COR	97.8%	**93.2%**	1.1 pts	<94%
Current year COR	99.3%	**92.3%**	1.1 pts	
Attritional loss ratio	56.2%	**50.5%**	1.7 pts	
Controllable expense ratio[1]	17.6%	**20.1%**	N/a	<20%

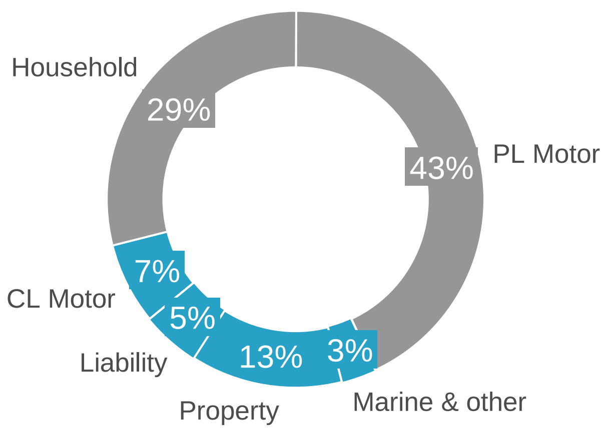
£795m

H1’20 Canada NWP

+4% vs. H1’19
+3% at CFX

Medium term outlook:
+2-4% CFX

Split of Canada NWP



Key points

- Underwriting profit improved significantly helped by hard market conditions
- Net written premiums up 3%[2] despite customer relief measures
- Attritionals (ex. COVID-19) improved 4 points vs. H1’19
- Cost expected to be <20% at full year
- Johnson continues to demonstrate good growth, profitability and customer retention
- Broker Personal Lines improved sharply
- Commercial Lines volumes down, offset by rate as targeted. Attritional and large losses improved – more to do

[1] Earned underwriting controllable cost ratio
[2] At constant FX

UK & International

Progress	H1'19	H1'20	Covid-19 impact	Ambition
COR[1]	94.0%	**93.6%**	**1.1 pts**	<94%
Current year COR[1]	94.3%	**93.6%**	**1.5 pts**	
Attritional loss ratio[1]	48.4%	**42.5%**	**5.5 pts**	
Controllable expense ratio[1,2]	22.9%	**22.3%**	**N/a**	<20%

£1.3bn

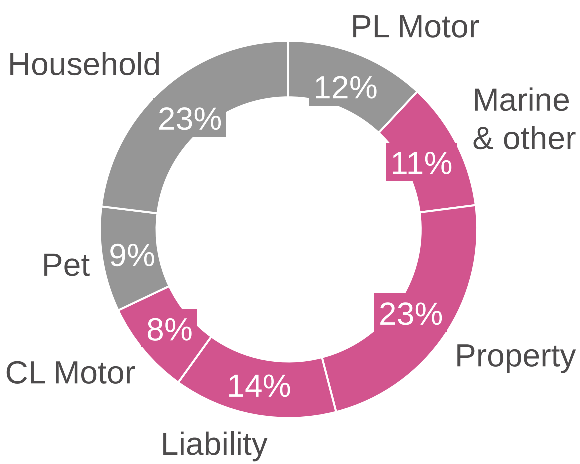
H1'20 UK & International NWP

-8% vs. H1'19

-8% at CFX

Medium term outlook: +1-4% CFX

Split of UK&I NWP



Key points

- Continued improvement in UK&I results, including and excluding COVID-19 impacts
- Ireland and Middle East continue stand out performance.
- UK COR 96.1%[1]; current year COR 95.0%[1] – significantly better adjusted for weather
- Attritionals 5.9 points better (5.5 points COVID-19 related)
- Weather 1.9 points worse driven by UK February floods; large losses flat (ex. COVID-19)
- Cost ratios improved despite COVID-19 impact on premiums. UK cost programme phase I complete but with further cost takeout underway
- Business exits substantially accomplished. C.£7m remains to run-off in H2

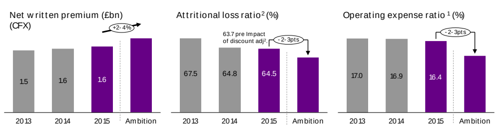
[1] Ex. UK/ London Market exit portfolios
[2] Earned underwriting controllable cost ratio

Ambition remains focused on driving towards best-in-class capabilities and performance

Financial ambition
best-in-class combined ratios

Scandinavia

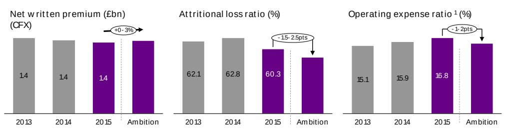
< 85%



2020-21[1]

Canada

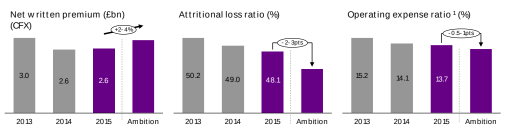
< 94%



2020-21[1]

UK & International

< 94%



2021-22[1]

[1] Represents management ambition assuming ‘normal’ volatile items

2020 Interim Results summary

1. Service to customers, safety of our people and resilient operation our top priorities
2. Focus on delivering our plans remains strong. H1 trends encouraging
3. H1 underwriting profit up 33%, COR a record 92.2%, underlying EPS 23.5p up 12%, underlying ROTE 16.7%
4. COVID-19 impacts on operating profit broadly neutral in H1, though uncertainty remains
5. Financial market impacts of COVID-19 hit capital & “below the line” results, but within tolerable bands
6. Outlook positive as we continue to focus on customers and on actions to sustain strong delivery for 2020 and beyond

2020 Interim Results

Performance summary

£m (unless stated)	H1'20	H1'19
Net Written Premiums[1]	1 3,136	3,242
Underwriting result[1]	2 240	181
Current year underwriting result[1]	222	155
COR[1] (%)	92.2%	94.3%
Business operating result[1]	3 349	308
Other charges (incl. exit portfolios)	4 (138)	(81)
Profit before tax	5 211	227
Profit after tax	164	183
EPS	13.5p	15.3p
Underlying EPS[1]	6 23.5p	20.9p
Underlying ROTE[1], annualised	7 16.7%	15.0%
Tangible net asset value	8 £3.2bn	£2.9bn

Key comments

1. Group Net Written Premiums down 3% at constant FX due to c.£110m of COVID-19 impacts
2. Excellent current year underwriting result, partly offset by lower prior year development. Limited underwriting impact from COVID-19
3. Business operating profit reflects strong underwriting result but investment income lower (as expected)
4. Other charges include: COVID-19 financial market volatility (net losses £46m and discount rate change £8m), exit portfolio losses (£33m), UK restructuring charges (£18m) and Norway goodwill impairment (£5m)
5. Statutory profit measures impacted by other charges
6. Underlying EPS of 23.5p[1] up 12% versus PY, driven by strong underwriting results
7. Underlying ROTE of 16.7%[1] in the upper part of 13-17% target range
8. TNAV up 9% driven by profits, exchange gains and fair value mark-to-market movements

Note: H1 2019 comparative numbers shown at reported exchange
[1] Ex. UK/ London Market exit portfolios for non-statutory measures

Premiums

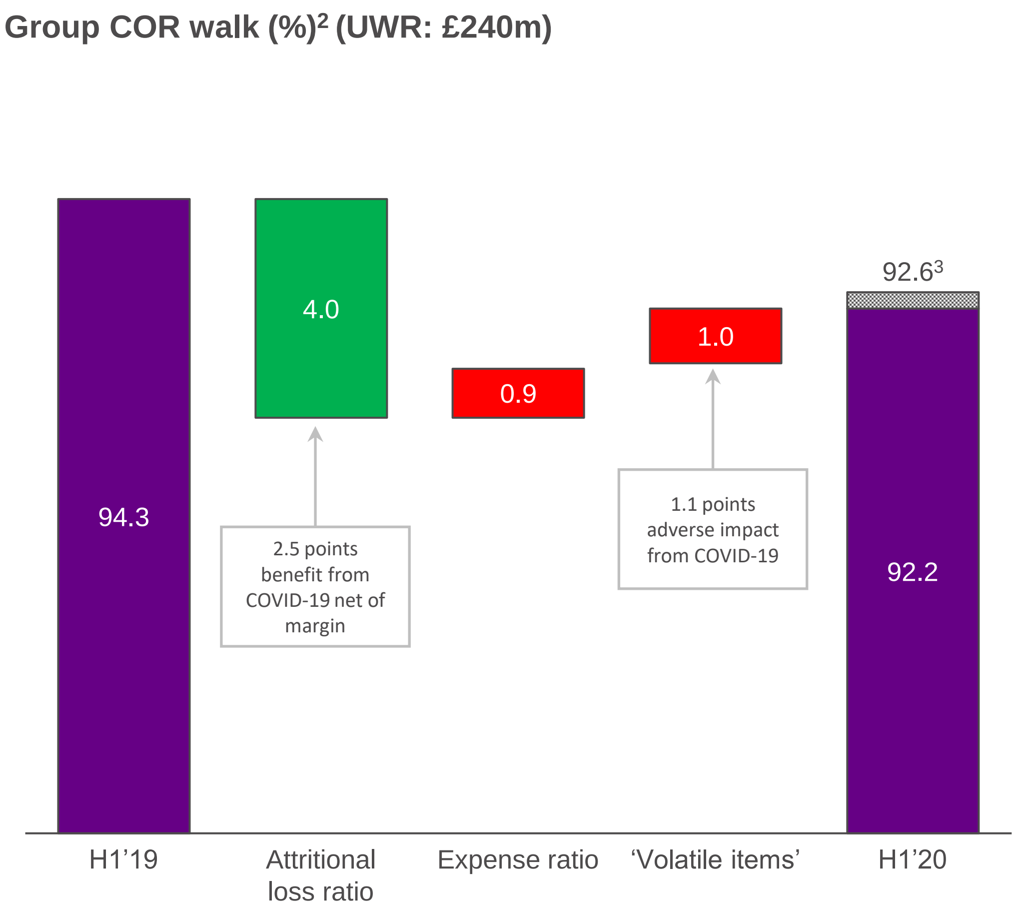
Growth	Group Net Written Premiums down 3% at constant FX (flat excluding COVID-19)
Growth drivers	Personal Lines growth in Canada and Sweden
Retention	Retention up in UK and Canada Commercial; down in Scandinavia

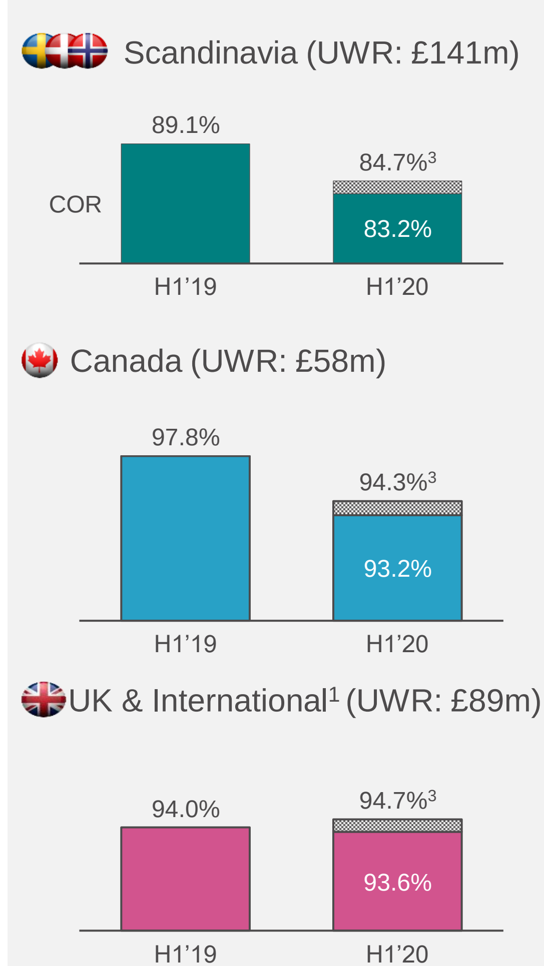
	Personal Lines		Commercial Lines	
	CFX growth	Policy count growth	CFX growth	Volume growth[2]
Scandinavia	1%	0%	(4%)	(8%)
1 Scandinavia (ex. COVID-19)	1%	N/a	(3%)	(8%)
Canada	4%	(5%)	1%	(7%)
2 Canada (ex. COVID-19)	8%	N/a	1%	(7%)
UK&I[3]	(11%)	(9%)	(6%)	(11%)
3 UK&I[3] (ex. COVID-19)	(4%)	N/a	(1%)	(6)%

1. Growth in Swedish Personal Lines (2%[1]) and Swedish Commercial Lines (1%[1]) but Commercial Lines down overall driven by planned underwriting actions in Danish Commercial Lines
2. Johnson premiums up 12%[1] (5% organic) while Personal Broker premiums down 6%[1]. Commercial Lines premiums up 1%[1] as strong rate helped to more than offset a 7% decline in volumes
3. UK&I Personal Lines premiums down 11%[1,3] driven by UK and Ireland Motor. Commercial Lines premiums down 6%[1,3] driven by 2018 and 2019 portfolio actions. Significant impact of COVID-19 on both Personal and Commercial Lines growth

[1] At constant FX
[2] Volume growth represents the value of new business net of lapses
[3] Excluding UK/London Market exit portfolios

Underwriting results[1]



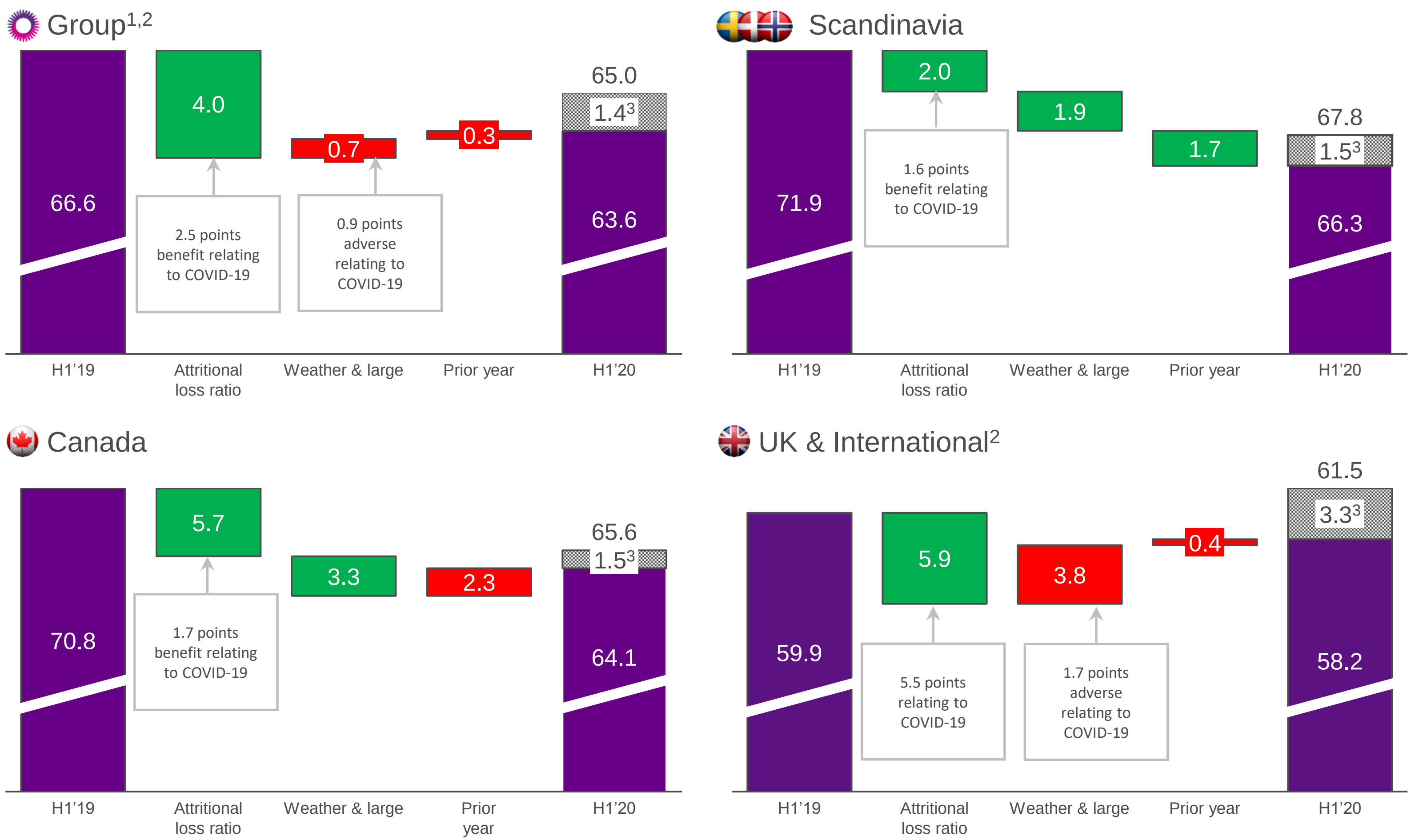


[1] Ex. UK/ London Market exit portfolios
[2] Ratio movements at constant FX
[3] Excluding the impacts of COVID-19

COVID-19 impacts

Loss ratios

Loss ratio walks H1’19 to H1’20 (%)

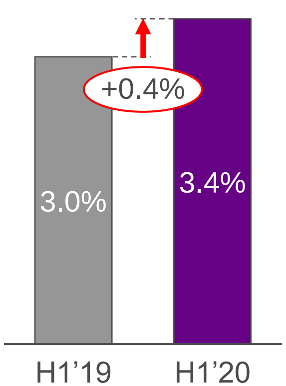


[1] At constant FX
[2] Ex. UK/ London Market exit portfolios
[3] Excluding the impacts of COVID-19

'Volatile' underwriting items[1]

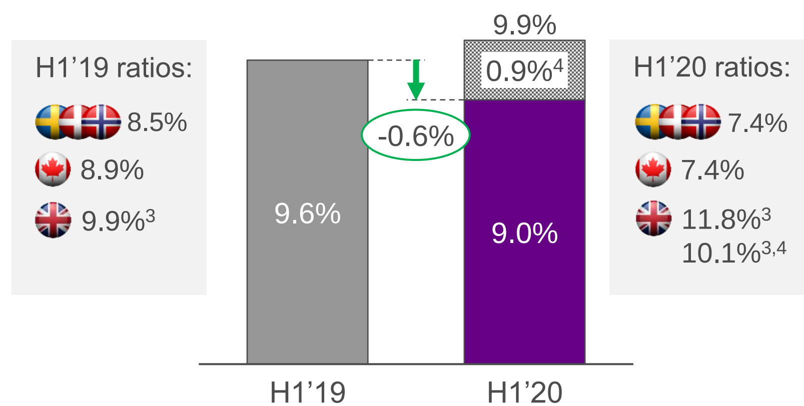
- **Weather** — Weather costs slightly above H1 19 and the five year average; Canada better than PY but UK&I worse driven by UK February floods
- **Large** — Large losses improved in Scandinavia and Canada, UK&I flat ex. COVID-19 related losses
- **Prior year** — Lower (but still positive) prior year development

Weather ratio



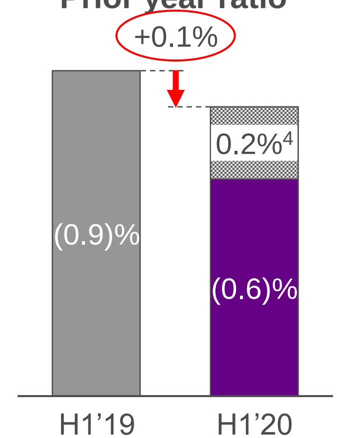
- 5 year average: 2.9%[2]

Large loss ratios



- 5 year average: 10.0%[2]

Prior year ratio



- Reserve margin >5%

[1] Excluding UK/ London Market exit portfolios
[2] 5 year averages are for Group ex. disposals; they are annual averages for 2015 to 2019 inclusive
[3] UK & International
[4] Excluding the impacts of COVID-19

Controllable costs

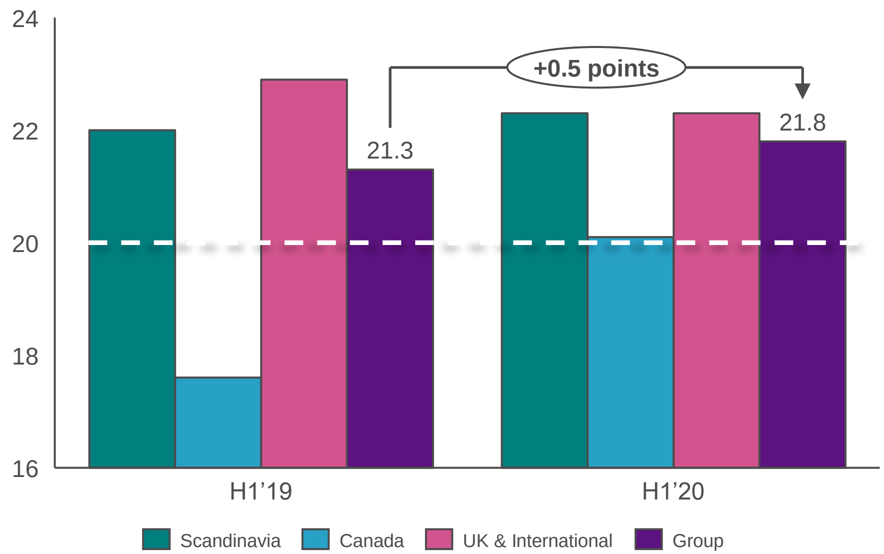
H1 2020

Group earned controllable cost ratio 21.8% up 0.5 points[1] versus H1 2019. Driven by COVID-19 impact on premiums with earned costs slightly lower at £670m

Regional view

UK & International ratio improved as UK cost programme benefits earn through. Canada higher (as guided) due to planned software amortisation as well as COVID-19 premium impacts and Scandinavia higher driven by underwriting actions on the topline (Scandinavia absolute costs down versus H1 2019)

Earned controllable expense ratio (%)[1]



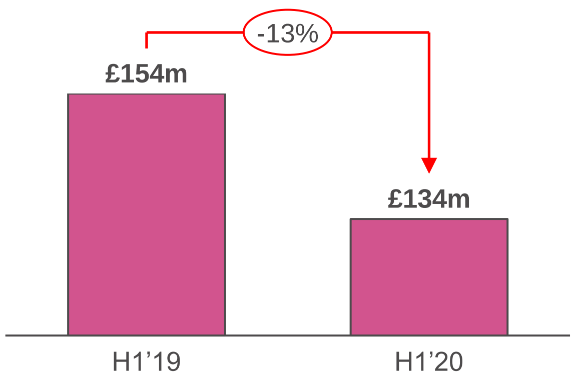
UK cost programme

- Programme costs total £45m since inception (£18m charge YTD)
- £50m run-rate benefits achieved vs. 2018 baseline (c.£40m net of inflation)
- Further cost takeout underway
- UK continues to target <20% controllable costs by 2022

[1] Group at constant FX and excluding UK/ London Market exit portfolios

Investment portfolio

Gross investment income H1'2019 vs. H1'2020



Key comments

- Investment strategy unchanged: High quality, low risk fixed income portfolio. £6m H1 COVID-19 impact
- Average income yield on bond portfolios of 1.9% (H1 19: 2.2%), average reinvestment rate 0.7% (H1 19: 1.3%)
- Unrealised gains of £428m (pre-tax) increased by c£55m. Driven by unrealised bond gains of c.£125m offset by declines in value of REITs and preference shares of c.£70m

Gross investment income guidance

£m	2020 guidance	2021 guidance	2022 guidance
Investment income	c.£255-270m	c.£240-255m	c.£235-250m

Key comments

- Guidance based on forward yields and FX
- Increase in AFS reserve for the bonds and flattening of yield curve means that, if yield curves were to stay as they are, gains are predicted to take around 7 to 8 years to fully unwind, with around 50% within the next 3 years
- AFS unwind estimated to be c.£40m (post-tax) for H2 2020 and c.£80m for 2021, impacting capital generation by a little less than those amounts
- Continue to expect discount unwind on long-tail liabilities of c.£30m per annum and investment expenses of c.£14m per annum

Statutory profit after tax £164m

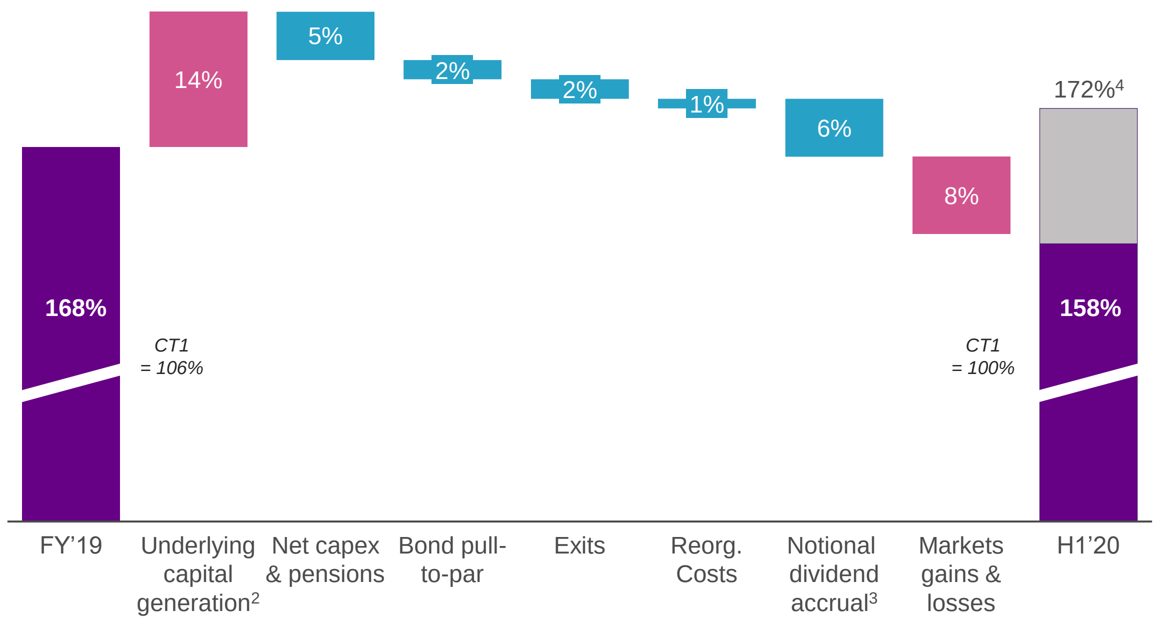
£m		H1'20	H1'19
Business operating result ex. exits		**349**	**308**
Exit portfolios		*(33)*	*(28)*
Business operating result inc. exits		***316***	***280***
Interest		(17)	(16)
Other charges	1 2	(88)	(37)
Profit before tax		**211**	**227**
Tax	3	(47)	(44)
Statutory profit after tax		**164**	**183**
Non-controlling interest	4	(12)	(13)
Other equity costs	5	(12)	(12)
Net attributable profit		**140**	**158**

Key comments

1. Other charges of £88m included £54m of COVID-19 related impacts:
   - £26m on inflation linked derivatives and property
   - £20m impairments (primarily REITs)
   - £8m charge for discount rate changes on long term liabilities in Denmark
2. Other charges also included £18m relating to the UK cost programme
3. Effective tax rate 22% (H1 2019: 20%) and underlying tax rate 21% (H1 2019: 18%). Excluding exits underlying tax rate 20% (H1 2019: 18%)
4. Primarily relates to Middle East minorities
5. Other equity costs include £7m coupon costs on restricted Tier 1 securities, reflected directly in equity, and £5m preference dividend

Solvency II position

Movement in Solvency II coverage ratio[1] (%)



Market impacts by factor

Market movements – H1 2020	Coverage
Yields	(5)%
REITs / preference shares	(4)%
Other[a]	1%
Market gains and losses	**(8)%**

[a] Other includes the impacts of spreads (dampened by the Volatility adjustment), foreign exchange, pensions and other movements which broadly nets out

Pension surplus

IFRS pension surplus increased £117m, providing a 5 point additional unrecognised buffer to the Solvency II ratio. This brings the total unrecognised pension buffer to 8 points.

Target range 130-160%: Prefer to operate above top end of range

[1] The Solvency II position at 30 June 2020 is estimated
[2] Represents profit after tax (ex. Exits and Reorg. Costs) attributable to ordinary shareholders, adjusted for non capital items
[3] Reflects 6 months' accrual of a 'notional' dividend amount for the year; this 'notional' amount should not be considered in any way to be an indication of actual dividend amounts for 2020
[4] Excluding accruals for 2019 final dividend and 2020 'notional' interim dividend

To conclude[1]…

1. Service to customers, safety of our people and resilient operation our top priorities
2. Focus on delivering our plans remains strong. H1 trends encouraging
3. H1 underwriting profit up 33%, COR a record 92.2%, underlying EPS 23.5p up 12%, underlying ROTE 16.7%
4. COVID-19 impacts on operating profit broadly neutral in H1, though uncertainty remains
5. Financial market impacts of COVID-19 hit capital & “below the line” results, but within tolerable bands
6. Outlook positive as we continue to focus on customers and on actions to sustain strong delivery for 2020 and beyond

Note (1): underlying measures, ex. exits

Q&A