

IMMEDIATE

7 May 2009

## RSA Interim Management Statement

### Quarter 1 2009: Continued strong performance

- Group net written premiums of £1.9bn up 8% (in line with 2008 at constant exchange rates)
- IGD surplus of £1.7bn and coverage of 2.4 times
- Net asset value per share excluding IAS 19 of 99p, compared with 101p at 31 December<sup>1</sup>
- Total net asset value per share of 106p compared with 112p at 31 December<sup>1</sup>
- Expect to deliver a COR of around 95% in 2009

### Andy Haste, Group CEO of RSA, commented:

“Our first quarter net written premiums have again demonstrated the resilience of our strong and diversified portfolio. We are, as expected, seeing the effect on premiums of the current challenging conditions, however, we have taken action to mitigate this including continuing to push hard on rate. We also continue to take action on expenses and are making good progress towards meeting our targets in Scandinavia and the UK. The Group’s financial position remains strong, reflecting our high quality, low risk investment strategy and robust capital position and we are confident of delivering a strong result in 2009.”

### Business Overview

Net written premiums for the three months to 31 March 2009 were £1,852m, an increase of 8% over the same period in 2008 (in line at constant exchange).

- International net written premiums of £1,001m up 12% (1% at constant exchange rates)<sup>2</sup>
- UK net written premiums of £652m down 1%<sup>2</sup>
- Emerging Markets net written premiums of £195m up 20% (1% at constant exchange rates)<sup>2</sup>

### - International

International has delivered good growth, with premiums up 12% to £1,001m (1% at constant exchange), reflecting the benefits of continued action on rating, organic initiatives and favourable foreign exchange movements.

<sup>1</sup> See notes to editors Note 4

<sup>2</sup> See notes to editors Note 1

In Scandinavia, premiums of £665m were up 13% (3% at constant exchange) with growth of 11% in Commercial (2% at constant exchange) and 15% in Personal lines (5% at constant exchange) driven by rate increases across all lines of business and strong retention. We continue to make good progress towards our additional £25m expense savings target and remain on track to deliver this by mid 2010.

In Canada, premiums of £198m were up 5% (down 6% at constant exchange) against a very strong Q1 in 2008, which included a £13m reinsurance benefit following the acquisition of CNS and its inclusion within the Group's reinsurance programme. We continue to take action on rate and achieved increases of 8% in Household, 3% in Personal Motor, 4% in Commercial Motor and 1% in Commercial Property.

In Other Europe, premiums were up 19% to £138m (in line with Q1 2008 at constant exchange), with strong growth in Ireland, driven by the acquisition of Sertus and positive rate action across all lines of business, offsetting the withdrawal of capacity in Commercial Property in Italy.

#### **- UK**

The UK remains a competitive market with overall premiums of £652m down 1% on last year. The team have delivered a good performance and we remain well positioned with our balanced product and distribution strategy.

In Commercial, premiums of £389m were 2% down on last year, with a strong performance in Risk Solutions offsetting lower premiums in large Commercial Motor schemes. In Personal lines, premiums decreased by 1% to £263m, with new affinity deals offsetting lower new business levels related to mortgage origination and car sales.

We continue to take the right action on rate to mitigate the economic downturn and have again achieved a 6% rate increase in Personal Motor and 5% in Household. In Commercial, we have pushed rate hard and achieved increases of 6% on Liability, 7% on Property and 11% on Motor. Retention remains strong across the UK at around 80%.

At our full year results in February, we announced a further £70m expense savings target in the UK with plans to reduce headcount by 1,200. As of today we have announced 865 of the roles, of which 226 have already left the business.

## **- Emerging Markets**

Emerging Markets has delivered a good result with net written premiums of £195m up 20% (1% at constant exchange) in expected difficult conditions.

In Asia and the Middle East the top line benefited from a large contract win in Hong Kong, while in Latin America we continued to make progress with premium growth in Chile and Brazil offset by portfolio action in Mexico and the move to six month policies in Argentina. As anticipated, the impact of the economic downturn is particularly evident in the Baltics, however, we continued to outperform the market, maintaining our leading position in the region.

Our associates in Eastern Europe and India continue to perform well and delivered growth of 27% (19% at constant exchange). As reported on 25 March, we have agreed to purchase the remaining 50% of our associate in Eastern Europe. Completion of this transaction is subject to regulatory approval.

As expected, short term conditions in Emerging Markets are challenging and we continue to take action across the region on rate, policy terms, expenses and headcount to protect the bottom line. These remain attractive markets with good long term potential and we continue to see opportunities within the region.

A full breakdown of Group net written premiums and rating actions for the first quarter is included in the notes to editors.

## **Financial Position and 2009 Outlook**

### **- Investment Portfolio**

The Group continues to benefit from its low risk investment strategy with 90% of the total investment portfolio invested in high quality fixed income and cash assets. Within the bond portfolio 99% is investment grade with 83% rated AA or above. Equities comprise 5% of the portfolio and commercial property 2%. We have hedged our equity exposure for the past four years and around 65% of this exposure remains hedged with a rolling programme of put and call options, providing protection down to a FTSE level of 2800.

The investment portfolio totalled £14.2bn at 31 March, a decrease of only 3% since the year end due mainly to foreign exchange movements.

As previously reported, the Group will be impacted by lower interest rates, however, we expect to limit this impact with the continued cautious purchase of high quality non government credit, selectively extending duration and the geographic diversification of the portfolio. As reported at the full year, we currently expect investment income in 2009 to be around 2007 levels and we are not anticipating a positive contribution from total gains.

### **- Shareholders' Funds and Capital Position**

Shareholders' funds as at 31 March 2009, excluding the pension fund surplus, were £3,405m (99p per share) compared with £3,476m (101p per share) at 31 December 2008. Total shareholders' funds were £3,644m (106p per share), compared with £3,839m at 31 December (112p per share), with retained profits offset by the movement in the pension fund surplus and foreign exchange.

The Group's capital position remains strong. At 31 March, the IGD surplus was unchanged from the position at 31 December at £1.7bn, representing coverage of 2.4 times the requirement. The economic capital surplus remains strong at £1.5bn, which fully reflects the currently depressed asset values and lower expected future investment returns.

Further details on movements in the investment portfolio, net asset value, pension surplus and capital position are provided in the notes to editors.

### **- Combined Operating Ratio**

As it stands today, and as announced at the 2008 year end, we expect to deliver a combined operating ratio of around 95% in 2009.

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**Notes to editors:**

1. Set out below are the net written premiums for each of the regions for the three months to March 2009:

	Net written premiums		Increase as reported	Increase at constant exchange
	Q1 2009 £m	Q1 2008 £m	%	%
Scandinavia	665	589	13	3
Canada	198	188	5	(6)
Other Europe	138	116	19	-
Total International	1,001	893	12	1
UK Personal	263	265	(1)	(1)
UK Commercial	389	396	(2)	(2)
Total UK	652	661	(1)	(1)
Emerging Markets	195	163	20	1
Group Re	4	4	-	-
<b>Total Group</b>	<b>1,852</b>	<b>1,721</b>	<b>8</b>	<b>-</b>

2. Rate movements achieved for risks renewing in March 2009 versus comparable risks renewing in March 2008 were as follows:

	Personal		Motor %	Commercial		Property %
	Motor %	Household %		Liability %		
UK	6	5	11	6	7	
Scandinavia	2	3	3	4	3	
Canada	3	8	4	-	1	

3. The movement in the value of the investment portfolio from 31 December 2008 to 31 March 2009 is set out below:

	Value 31/12/2008 £m	Foreign Exchange £m	Mark to Market £m	Other Movements £m	Value 31/3/2009 £m
Government Bonds	6,011	(153)	3	(352)	5,509
Non Government Bonds	5,631	(124)	9	157	5,673
Cash	1,614	(26)	-	91	1,679
Equities	780	(4)	(73)	(2)	701
Property	365	(4)	(23)	18	356
Prefs & CIVs	160	(2)	1	-	159
Other	166	(1)	-	4	169
<b>Total</b>	<b>14,727</b>	<b>(314)</b>	<b>(83)</b>	<b>(84)</b>	<b>14,246</b>

The investment portfolio totalled £14,246m at 31 March 2009, a decrease of 3% over the quarter driven mainly by foreign exchange of £314m. The foreign exchange movement primarily reflects the depreciation of our major operating currencies against Sterling.

90% of the total investment portfolio is invested in high quality fixed income and cash assets. The fixed interest portfolio remains concentrated on high quality short dated assets, with 99% of the bond portfolio investment grade, and 83% rated AA or above. The bond holdings are well diversified, with 75% invested in currencies other than Sterling.

The non government bond portfolio of £5.7bn comprises £1.8bn of Scandinavian Mortgage Bonds, £2.2bn of other financials and £1.7bn of non financials. The Scandinavian Mortgage Bonds portfolio comprises £1.1bn of Swedish bonds, which are all rated AAA, and £0.7bn of Danish bonds, which are principally rated AAA. The average duration on the Scandinavian Mortgage Bond portfolio is 2.5 years with an average LTV of around 60%. Within the £2.2bn of other financial exposure, £0.5bn is in supranational and sovereign backed entities, £0.3bn in other non bank financials and £1.4bn in banks. Of the £1.4bn in banks, just £292m of this is subordinated debt and only £90m is Tier 1, the vast majority of which is in Canadian banks, with only £3m in the UK.

As reported at the year end, and in line with our high quality, low risk investment strategy, we continue with the cautious purchase of high quality non government credit and selective duration extension to enhance yield on the bond portfolio. At 31 March 2009, 51% of the fixed interest portfolio was invested in non government bonds, up from 48% at the beginning of the year. Average duration is 2.9 years for the Group, and 2.6 years in the UK compared to 2.7 and 2.0 years respectively at 31 December.

At 31 March, equities (excluding preference shares and Collective Investment Vehicles backed by fixed income and cash) comprised 5% of the portfolio. We have hedged our equity exposure for the past 4 years and around 65% of this exposure remains hedged with a rolling programme of put and call options, providing protection down to a FTSE level of 2800.

The commercial property portfolio is only 2% of investment assets and comprises high quality commercial properties and does not include any development properties. The Group's CDO exposure is £72m, and includes £69m of CLOs, of which £67m are rated AAA.

At 31 March 2009, unrealised gains on the balance sheet were £236m (31 December 2008: £263m).

Going forward, investment income will be impacted by lower interest rates, however, with the actions we are taking to lock in higher yields and the geographic diversification of the portfolio we expect to limit this, and currently we expect investment income in 2009 to be around 2007 levels.

Total gains will continue to be impacted by any further negative market movements in commercial property values as well as financial market volatility. As reported at the year end, if the FTSE 100 was around 4,000 throughout 2009, the value of the equity hedges would be estimated to be approximately £40m, while total impairments would be estimated to be between £40m and £60m (the majority of which would be incurred in the first half based on the Group's impairment policy). The value of commercial property is expected to broadly track the IPD index. As it stands today, we are not anticipating a positive contribution from total gains in 2009.

4. The Group's shareholders' funds including and excluding the pension surplus are as follows:

	<b>Shareholders' funds ex. IAS 19 £m</b>	<b>Pension surplus £m</b>	<b>Shareholders' funds £m</b>	<b>Shareholders' funds ex. IAS 19 per share</b>	<b>Shareholders' funds per share</b>
31 December 2008	3,476	363	3,839	101p	112p
31 March 2009	3,405	239	3,644	99p	106p

As at 31 March shareholders' funds were £3,644m, a decline of 5% over the quarter primarily driven by the reduction in the pension fund surplus and foreign exchange.

The movement in the pension fund surplus since 31 December from £363m to £239m reflects the impact of investment market movements on the pension fund assets offset by the increase in the discount rate. The impact of market movements has been limited by the defensive asset mix with only 22% invested in equities. The increase in the discount rate from 6.2% to 6.5% is due to an increase in corporate bond yields (which includes an allowance for current pricing of financial corporate bonds) and we have held our inflation assumption of 2.8% constant since the year end.

The assumptions used to calculate the pension fund position are formally reviewed each year and the next full review will be carried out at the 2009 year end.

Over the last four years we have taken substantial action to de-risk the UK pension funds. In 2005 we reduced benefit costs by moving from final salary to career average revalued earnings (CARE) and hedged market exposure via an extensive programme of interest rate and inflation swaps, while in 2007 we significantly reduced equity exposure. We continue to explore options to further de-risk the Group's pension schemes.

5. The Group's regulatory capital position under the Insurance Groups Directive (IGD) is set out below:

<b>Insurance Groups Directive</b>	<b>Requirement £bn</b>	<b>Surplus £bn</b>	<b>Cover</b>
31 December 2008	1.1	1.7	2.5x
31 March 2009	1.2	1.7	2.4x

At 31 March 2009, the Group had surplus economic capital of £1.5bn, compared with £1.8bn at the year end, based on a risk tolerance consistent with Standard & Poor's long term A rated bond default curve. This is equivalent to a probability of solvency over one year of 99.92%. The movement in the economic capital surplus fully reflects the currently depressed asset values and lower expected future investment returns.

6. Foreign exchange rates used to translate the Q1 2009 and 2008 consolidated results included in this statement are as follows:

Local currency/£	3 Months 2009		3 Months 2008		12 Months 2008	
	Average	Closing	Average	Closing	Average	Closing
Canadian Dollar	1.79	1.80	1.99	2.04	1.96	1.77
Danish Krone	8.22	8.04	9.83	9.36	9.39	7.70
Swedish Krona	12.08	11.84	12.40	11.79	12.09	11.35
Euro	1.10	1.08	1.32	1.25	1.26	1.03

7. Movements since 31 March 2008

As at 6 May, the IGD and economic capital surpluses are estimated to be unchanged at £1.7bn and £1.5bn respectively. A further 30% fall in the FTSE from current levels of around 4,300 would reduce the IGD surplus by an estimated £0.2bn. Shareholders' funds have marginally increased due to retained profits and mark to market movements on the investment portfolio and net asset value per share is estimated at 108p.

8. This trading update constitutes RSA's Interim Management Statement for the period 31 December 2008 to 6 May 2009.

#### About RSA

With an almost 300 year heritage, RSA is one of the world's leading multinational quoted insurance groups. It has the capability to write business in over 130 countries and with major operations in the UK, Scandinavia, Canada, Ireland, Asia and the Middle East and Latin America. Focusing on general insurance, it has around 22,000 employees and, in 2008, its net written premiums were £6.5bn.

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