NEWS

RSA

IMMEDIATE **6 November 2008**

RSA Interim Management Statement

Quarter 3 2008: Continued strong performance

- Group net written premiums of £4.9bn up 11% (4% at constant exchange rates)
- IGD surplus of £1.4bn and coverage of 2.3 times the requirement, unchanged from 30 June
- Net asset value per share excluding IAS 19 of 85p, unchanged from 30 June[1]
- Total net asset value per share of 92p compared with 94p at 30 June[1]
- At 5 November, IGD surplus of £1.5bn and net assets in line with 30 September
- Expect to deliver a COR of better than 95% in 2008

Andy Haste, Group CEO of RSA, commented:

"We have maintained good momentum in the first nine months and our premium growth continues to demonstrate the benefits of our management actions and our strong and diversified portfolio. The Group's financial position is strong, reflecting our high quality, low risk investment strategy and resilient capital position. Against a backdrop of challenging trading conditions and volatile investment markets, we continue to exercise tight operational and financial management and remain confident of delivering a strong result in 2008 and beyond."

Business Overview

Net written premiums for the nine months to 30 September 2008 were £4,853m, an increase of 11% (4% at constant exchange) over the same period in 2007.

- International net written premiums of £2,272m up 21% (7% at constant exchange)
- UK net written premiums of £2,032m, in line with prior year
- Emerging Markets net written premiums of £538m up 22% (10% at constant exchange)[2]

International has continued to deliver excellent growth, with premiums up 21% to £2,272m, reflecting the benefits of organic initiatives, bolt on acquisitions and favourable foreign exchange movements.

[1] See notes to editors Note 4

[2] See notes to editors Note 1

In Scandinavia, premiums were £1,258m, up 17% (3% at constant exchange) with good growth in Denmark and Norway. In Canada, premiums of £668m were up 30% (18% at constant exchange), driven by organic initiatives and the benefit of the CNS acquisition in December 2007. In Other Europe, premiums were up 18%, or 2% at constant exchange.

The UK has again delivered a good performance in a competitive market and overall premiums are in line with last year at £2,032m. We remain committed to our strategy of maintaining underwriting discipline, targeting profitable niches and withdrawing capacity from unprofitable areas of the market.

In Personal lines, premiums increased by 1% to £824m, a good result given competitive trading conditions and the impact of the economic downturn on mortgage originations and new car sales. In Commercial, premiums of £1,208m were in line with last year, with targeted growth in Marine and Commercial Motor offsetting the withdrawal of capacity in areas such as small and mid corporate Property, where we would not have achieved our target returns.

We continue to take the right action on rate and have again achieved 5% rate increases in Personal Motor and Household. In Commercial, we have pushed rate hard and achieved rate increases of 4% on Liability, 7% on Property and 9% on Motor. Retention remains strong across the UK at around 80%.

Emerging Markets has continued to deliver double digit growth across Latin America, the Baltics and Asia and the Middle East. Net written premiums of £538m are up 22% (10% at constant exchange); excluding Venezuela, which was sold in December 2007, premium growth is 29% (16% at constant exchange). Our joint ventures in Eastern Europe and India also continue to perform well and delivered growth of 46% (29% at constant exchange).

The Group's net written premium growth for the period from 30 September to 5 November is in line with that seen in the first nine months of the year.

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

Financial Position

The Group's financial position is strong. The Group continues to benefit from its low risk investment strategy with the portfolio dominated by high quality fixed income and cash assets. The investment portfolio totalled £13.5bn at 30 September, compared with £13.2bn at the half year, with foreign exchange gains and other positive portfolio movements offsetting mark to market value adjustments.

The fixed interest portfolio remains concentrated on high quality short dated assets, with 99% of the portfolio investment grade, 87% rated AA or above and 70% invested in currencies other than sterling.

At 30 September, equity investments comprised only 7% of the total investment portfolio and around 75% of this exposure is covered by hedges, with the lowest tranche of options currently providing protection down to a FTSE of 2,825.

Net assets as at 30 September, excluding the pension fund surplus, were £2,926m (85p per share) compared with £2,920m (85p per share) at 30 June. Total net assets were £3,159m (92p per share), compared with £3,221m at 30 June (94p per share), with retained profits offset by the interim dividend and the movement in the pension fund surplus.

The Group's capital position also remains strong. At 30 September, the IGD surplus was unchanged from the position at 30 June at £1.4bn, representing coverage of 2.3 times the requirement. The economic capital surplus as at 30 September was £2.0bn compared with £2.3bn at the half year.

Although investment markets have remained volatile, the IGD and economic capital surplus have both increased since 30 September. At 5 November, the IGD surplus is £1.5bn and the economic capital surplus £2.1bn, while the Group's net assets are in line with the end of the third quarter. A further 30% fall in the FTSE from current levels of around 4,500 would reduce the IGD surplus by an estimated £0.3bn.

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

Outlook

The Group has maintained good momentum in the first nine months. We expect trading conditions to remain challenging in a number of our markets and investment markets to remain volatile, however, with the actions we are taking and the strength of our portfolio, we remain confident of delivering a strong result in 2008 and beyond. As reported in the 2008 Interim Results, we expect to deliver a combined operating ratio for 2008 of better than 95%.

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Notes to editors:

1. Set out below are the net written premiums for each of the regions for the nine months to September 2008:

	Net written premiums **Q3 2008** **£m**	Q3 2007 £m	Increase as reported %	Increase at constant exchange %
Scandinavia	**1,258**	1,073	17%	3%
Canada	**668**	512	30%	18%
Other Europe	**346**	294	18%	2%
Total International	**2,272**	1,879	21%	7%
UK Personal	**824**	819	1%	1%
UK Commercial	**1,208**	1,206	-	-
Total UK	**2,032**	2,025	-	-
Emerging Markets[1]	**538**	441	22%	10%
Group Re	**11**	15	(27)%	(27)%
Total Group	**4,853**	4,360	11%	4%

[1]Note: Emerging Markets Q3 2007 net written premiums include £23m in respect of the Venezuelan business, which was sold in December 2007. Excluding Venezuela, Emerging Markets premium growth was 29% on a reported basis, and 16% at constant exchange.

2. Rate movements achieved for risks renewing in September 2008 versus comparable risks renewing in September 2007 were as follows:

	Personal		**Commercial**		
	Motor %	**Household %**	**Motor %**	**Liability %**	**Property %**
UK	5	5	9	4	7
Scandinavia	-	4	2	5	3
Canada	2	6	(3)	(1)	(2)

3. The movement in the value of the investment portfolio from 30 June to 30 September is set out below:

	Value 30/06/2008 £m	Foreign Exchange £m	Mark to Market £m	Other Movements £m	Value 30/09/2008 £m
Bonds	10,148	10	88	152	10,398
Cash	1,158	22	-	166	1,346
Equities	1,003	4	(119)	11	899
Property	396	(1)	(25)	-	370
Prefs & CIVs	227	7	(12)	-	222
Other	284	10	-	(60)	234
Total	**13,216**	**52**	**(68)**	**269**	**13,469**

The investment portfolio totalled £13.5bn at 30 September, compared with £13.2bn at the half year, with foreign exchange gains and other positive portfolio movements offsetting mark to market value adjustments. The portfolio comprises assets of £7.5bn held in International, £5.3bn in the UK and £0.7bn in Emerging Markets.

The International investment portfolio includes £1.0bn of Swedish Mortgage Bonds, which are all rated AAA and have an average LTV of around 40%, and £0.4bn of Danish Mortgage Bonds, which are principally rated Aaa and have an average LTV of around 50%. The average duration on the Scandinavian mortgage bond portfolio is 2.5 years.

The Emerging Market's investment portfolio comprises 47% government bonds and 43% cash and short term deposits. Corporate bond exposure is 10% and comprises supra national and highly rated Western corporates, with negligible exposure to local corporate bond issuance. Equity exposure is less than 1%.

Overall, the Group continues to maintain a low risk investment strategy with the portfolio dominated by high quality fixed income and cash assets.

The total fixed interest portfolio of £10.4bn at 30 September is 99% investment grade, with 87% rated AA or above and 70% invested in currencies other than sterling. The overall average duration is 2.5 years and 1.9 years in the UK. Government bonds comprise around 55% of the portfolio, while the corporate bond portfolio is high quality and extremely well diversified.

Equity investments comprised only 7% of the portfolio at 30 September. We have hedged our equity holdings for the past 4 years and currently around 75% of the equity exposure is covered by hedges, with the lowest tranche of options providing protection to a FTSE of 2,825.

The mark to market movement on the equity portfolio was £119m in the quarter, making the total market movement on equities £277m for the year to 30 September. Offsetting this movement are realised and unrealised gains on the equity hedges of £46m in the quarter, and £106m for the year to 30 September, which are recognised in the income statement.

Other Movements comprise operating cashflows, cash from gilt repo activity, realised gains and losses and impairments. At 30 September, total impairments are around £30m, including £15m on Lehman Brothers corporate bonds. If equity markets stay at current levels of around FTSE 4,500, we would expect total impairments for the full year to be around £60m and total realised and unrealised gains on the equity hedges to be around £140m.

At 5 November, the value of the Group's investment portfolio is estimated to be in line with 30 September.

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

	Net assets ex. IAS 19 £m	Pension surplus £m	Net Assets £m	Net assets ex. IAS 19 per share	Net Assets per share
30 June 2008	2,920	301	3,221	85p	94p
30 September 2008	2,926	233	3,159	85p	92p

The movement in net assets in the period from £3,221m at 30 June to £3,159m at 30 September primarily comprises retained profits offset by the interim dividend and the movement in the pension fund surplus.

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 year end.

While corporate bond yields have continued to increase in the third quarter, we have held our assumptions constant since 30 June with a discount rate of 6.5% and an inflation assumption of 3.6%. On this basis, the surplus on the pension scheme remains strong at £233m at 30 September (30 June: £301m), benefiting from the actions that we have taken over the past few years to reduce the risk in the schemes.

Had the discount rate been adjusted to take account of the increase in corporate bond yields, the surplus on the pension fund would have been £487m at 30 September.

The movement in the pension fund surplus since 30 June from £301m to £233m, reflects the impact of investment market movements on the assets, with declines in equities (which, after the disposals in June 2007, comprised only 21% of the assets at 30 September) offset by movements in the bond portfolio.

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

Insurance Groups Directive	Requirement £bn	Surplus £bn	Cover
30 June 2008	£1.1bn	£1.4bn	2.3x
30 September 2008	£1.1bn	£1.4bn	2.3x
5 November 2008	£1.1bn	£1.5bn	2.3x

A further 30% fall in the FTSE from current levels of around 4,500 would reduce the IGD surplus by an estimated £0.3bn.

At 30 September 2008, the Group had surplus economic capital of £2.0bn, compared with £2.3bn at the half year, 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 1 year of 99.94%. At 5 November, the Group's surplus economic capital is estimated to be £2.1bn.

6. Foreign exchange rates used to convert Q3 2008 and 2007 net written premiums to sterling are as follows:

£/local currency	9 Months 2008		9 Months 2007		12 Months 2007	
	Average	**Closing**	Average	Closing	Average	Closing
Canadian Dollar	**1.98**	**1.89**	2.19	2.03	2.14	1.96
Danish Kroner	**9.55**	**9.47**	11.01	10.68	10.88	10.15
Euro	**1.28**	**1.27**	1.48	1.43	1.46	1.36

7. This trading update constitutes RSA's Interim Management Statement for the period 30 June 2008 to 5 November 2008.

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 2007, its net written premiums were £5.8bn.