2018 INTERIM RESULTS

RSA Insurance Group plc 2 August 2018

Earnings per share up 18%; interim dividend up 11%; return on tangible equity 16%

Underwriting result down due to adverse weather, especially in Canada (but up excluding weather impacts)

Stephen Hester, RSA Group Chief Executive, commented:

"RSA is reporting a strong first half. Activity is high across the Group, aimed at building capability to outperform in our markets.

First half underwriting results were below our ambitions due to adverse weather costs. On an underlying basis we showed areas of excellent performance however, and with much we can continue to improve."

Trading results

- Statutory profit after tax up 19% to £245m (H1 2017: £206m)
- Pre-tax profits up 12% to £296m (H1 2017: £263m)
- Group operating profit of £304m down 15% (H1 2017: £360m) due to adverse weather, which was £53m in excess of the five year average[2]. Regional results were: Scandinavia £147m; Canada £25m; UK & International £144m
- Underwriting profit of £171m down 23% (H1 2017: £222m):
  - Group combined ratio of 94.7% (H1 2017: 93.2%): Scandinavia 87.6%, Canada 100.5% and UK & International 95.3%
  - Attritional loss ratio up 0.4 points but flat net of changes in reinsurance
  - Group weather costs elevated at 4.9% versus a benign prior year (H1 2017: 1.2%)
  - Large losses improved to 9.7% of premiums (H1 2017: 11.4%)
  - Group prior year underwriting profit of £92m (H1 2017: £79m)
- Net written premiums ('NWP') of £3,219m down 5%[1] but flat net of changes in reinsurance[2]:
  - Headline premiums were dampened by c.£180m of budgeted reinsurance costs, primarily for the triennial Group Volatility Cover ('GVC') renewal
  - NWP up 1%[1] in Scandinavia, with Sweden up 6%[1]
  - NWP up 5%[1] in Canada. Scotiabank, one of Canada's leading retail financial services providers, has agreed to switch its exclusive general insurance partnership to RSA from 2019, giving us an exciting new distribution channel
  - NWP down 5%[1] in UK & International or 2% net of changes in reinsurance, as underwriting and rating actions (including scheme exits) take effect

[1] *At constant FX*
[2] *Please refer to pages 27 to 34 for further information*

- Total Group written controllable costs down 2%[1] to £697m. This comprised 4% cost reductions, offset by 2% inflation
- Investment income of £160m (H1 2017: £171m) ahead of guidance but down 6%[1] versus last year due to reinvestment at lower yields
- Below the operating result, interest expense more than halved following debt restructuring actions in prior years. As planned, restructuring charges fell away (H1 2017: £100m)
- Headline earnings per share (EPS) up 18% to 21.8p (H1 2017: 18.4p). Underlying EPS[2] down 10% to 21.0p due to adverse weather (H1 2017: 23.3p)
- Interim dividend of 7.3p per ordinary share declared, up 11% (H1 2017: 6.6p).

Capital & balance sheet

- Solvency II coverage ratio of 169% after dividend accrual (31 December 2017: 163%), above 130-160% target range
- Tangible equity £2.9bn up 6% (31 December 2017: £2.8bn), 285p per share
- Return on tangible equity of 16.2% (H1 2017: 13.1%) in upper half of 13-17% target range.

Strategic and market update

- RSA's focus is on building capability for outperformance in our markets. In that context, our many performance improvement initiatives continue to deliver progress; targeted at customer service, underwriting capabilities and costs
- Financial market conditions have been relatively stable as they impact RSA, albeit with negative foreign exchange impacts of circa 2% in the first half. Political uncertainties in the UK and internationally continue to give the potential for volatility however
- Insurance markets remain competitive overall, with significant variations by region and by product line. Scandinavian markets were relatively stable. In Canada prices are responding to weather and auto loss cost challenges. The UK and 'London market' are experiencing soft conditions requiring volume trade-offs for underwriting discipline.

[1] *At constant FX*
[2] *Underlying measure, please refer to pages 27 to 34 for further information*

MANAGEMENT REPORT – KEY FINANCIAL PERFORMANCE DATA

Management basis

£m (unless stated)	H1 2018	H1 2017
Profit and loss		
Group net written premiums	3,219	3,449
Underwriting profit ◊	171	222
Combined operating ratio ◊	94.7%	93.2%
Investment result ◊	136	148
Operating result ◊	**304**	**360**
Profit before tax	296	263
Underlying profit before tax ◊	**291**	**330**
Profit after tax	245	206
Profit attributable to ordinary shareholders ◊	223	188
Metrics		
Earnings per share (pence)	21.8p	18.4p
Underlying earnings per share (pence) ◊	**21.0p**	**23.3p**
Interim dividend per ordinary share (pence)	7.3p	6.6p
Return on tangible equity (%)	16.2%	13.1%
Underlying return on tangible equity (%) ◊	**15.6%**	**16.6%**

	30 June 2018	31 Dec 2017
Balance sheet		
Net asset value (£m)	3,835	3,653
Tangible net asset value (£m) ◊	2,930	2,765
Net asset value per share (pence) ◊	361p	345p
Tangible net asset value per share (pence) ◊	285p	270p
Capital		
Solvency II surplus (£bn)	1.2	1.1
Solvency II coverage ratio	**169%**	**163%**

◊ **Alternative performance measures:**

The Group uses Alternative Performance Measures (marked ◊ in tables), 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 27-34.

CHIEF EXECUTIVE'S STATEMENT

RSA's first half performance was strong with EPS up 18%, dividends up 11% and a return on tangible equity of 16%. This reflects an inherently stronger business, better able to absorb underwriting volatility; together with an absence of restructuring costs reflecting the Group's progress.

The Group combined ratio of 94.7% was good by historical standards, but short of our plan and H1 2017 due to adverse weather costs. Our view of RSA's underlying earnings capacity is unchanged however.

RSA continues to focus intensely on building performance capability in pursuit of our best-in-class ambitions for both customers and shareholders. We are making good progress, but with much more we can do. We expect to have setbacks – from external events and in our own execution – but to progress nevertheless.

Market conditions in the first half remained competitive, with areas where the correct underwriting and price actions required a 'top line' trade-off. Conversely, large parts of our business saw good progress in both top line and 'bottom line' drivers.

We are investing across RSA to serve customers better, to be better underwriters and to drive further efficiencies. Top line was positive[1] in two of our three regions, with UK weaker as our underwriting measures to improve on 2017 results took hold.

H1 attritional loss ratios (except in the UK) and expenses tracked closely to plan. The balance of naturally volatile underwriting items was £59m[1] negative in H1 versus prior year with weather costs £118m[1] adverse, partially offset by lower large losses (£55m[1]) and better prior year development (£4m[1]). Pleasingly, large losses were significantly better in the UK and Canada where 2017 corrections were needed, but Scandinavia had poor results in this respect – just volatility as far as we can tell.

In terms of our regional businesses; the UK & International segment saw 142%[1] higher underwriting profits – though there remains work to do, not least to navigate soft market conditions. Our important Scandinavian business saw lower underwriting profits due to large loss and PYD volatility but on an underlying basis is on track versus our plans. Similarly Canada had poor headline results due to very challenging weather, but was on track in all other respects. Weather volatility is a continuing feature of that market which we have previously highlighted.

We enter the second half of 2018 with confidence, while mindful of market challenges. Good progress is being made in modernising technology platforms in every region. Underwriting actions and technical capability remain in focus. And we are pleased to have concluded an important new bancassurance alliance in Canada with Scotiabank, one of Canada's leading retail financial services providers.

Stephen Hester
Group Chief Executive
1 August 2018

[1] *At constant exchange*

MANAGEMENT REPORT

SEGMENTAL INCOME STATEMENT

Management basis – 6 months ended 30 June 2018

	Scandinavia £m	Canada £m	UK & International £m	Central functions £m	**Group H1 2018 £m**	**Group H1 2017 £m**
Net written premiums	**1,057**	**729**	**1,532**	**(99)**	**3,219**	**3,449**
Net earned premiums	896	771	1,548	(3)	3,212	3,251
Net incurred claims	(626)	(553)	(962)	(7)	(2,148)	(2,102)
Commissions	(30)	(103)	(294)	4	(423)	(441)
Operating expenses	(128)	(119)	(220)	(3)	(470)	(486)
Underwriting result ◊	**112**	**(4)**	**72**	**(9)**	**171**	**222**
Investment income	49	32	79	-	160	171
Investment expenses	(2)	(1)	(4)	-	(7)	(6)
Unwind of discount	(12)	(2)	(3)	-	(17)	(17)
Investment result ◊	**35**	**29**	**72**	**-**	**136**	**148**
Central expenses	-	-	-	(3)	(3)	(10)
Operating result ◊	**147**	**25**	**144**	**(12)**	**304**	**360**
Interest					(13)	(30)
Other non-operating charges					5	(67)
Profit before tax					**296**	**263**
Tax					(51)	(57)
Profit after tax					**245**	**206**
Non-controlling interest					(10)	(10)
Other equity costs[1]					(12)	(8)
Profit attributable to ordinary shareholders ◊					**223**	**188**
Underlying profit before tax ◊					**291**	**330**
Loss ratio (%)	*69.8*	*71.7*	*62.1*	-	66.9	64.7
Weather loss ratio	*0.5*	*10.0*	*4.8*	-	*4.9*	*1.2*
Large loss ratio	*8.0*	*6.9*	*11.3*	-	*9.7*	*11.4*
Current year attritional loss ratio ◊	*63.0*	*58.2*	*49.3*	-	*55.3*	*54.9*
Prior year effect on loss ratio	*(1.7)*	*(3.4)*	*(3.3)*	-	*(3.0)*	*(2.8)*
Commission ratio (%)	*3.5*	*13.3*	*19.0*	-	13.2	13.6
Expense ratio (%)	*14.3*	*15.5*	*14.2*	-	14.6	14.9
Combined ratio (%) ◊	***87.6***	***100.5***	***95.3***	**-**	**94.7**	**93.2**
Earned controllable expense ratio (%) ◊	22.5	19.1	21.5	-	21.5	22.1

Notes:

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

Please refer to appendix for H1 2017 comparatives

[1] *Preference dividends of £5m and coupons of £7m paid on Restricted Tier 1 securities*

Premiums

Net written premiums of £3,219m were down 5% at constant FX but were flat excluding the impact of changes in reinsurance[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 provided a 2% headwind to premiums year-on-year.

We continue to see a strengthening of underlying customer activity where capability improvements take effect. Both customer satisfaction measures, such as net promoter score ('NPS'), and sales and service metrics are improving. Group retention was slightly lower at 79% (FY 2017: 80%). Scandinavia and Canada Personal Lines were up, while UK & International was down as a result of underwriting and rating action.

Regional trends for H1 2018 include:

- Scandinavian premiums were down 1% at reported FX but up 1% at constant FX. Attractive growth in Sweden was partly offset by contraction in Denmark and Norway. Personal Lines policies-in-force ('PIFs') were up 1%, while Commercial Lines volumes (excluding rate) were down
- Canadian premiums were flat at reported FX and up 5% at constant FX. The region continued the positive growth trends seen in 2017, with Personal Lines PIFs up 2% and Commercial Lines volumes up 5%. Retention is performing particularly well with both Johnson, our direct and affinity channel, and Personal broker improving over the last year to 90% and 88% respectively. Johnson continued to grow organically, achieving growth of 3% in H1 2018
- Net written premiums were down 5% in UK & International or down 2% excluding reinsurance changes, both at constant FX. Our partnership with Nationwide in the UK is doing well; retention was 87% in H1 and NPS scores remained strong. However, overall premiums were down as we maintained a disciplined approach in terms of pricing and re-underwriting certain portfolios (including scheme exits where necessary). Net written premiums in Ireland were down 3% at constant FX, while premiums in the Middle East were flat.

More detail is provided in the regional reviews on pages 12 to 17.

[1] *Please refer to pages 27 to 34 for further information*

Underwriting result

Group underwriting profit of £171m was down 23% year-on-year due to adverse weather, particularly in Canada:

	Total UW result ◊		Current Year UW ◊		Prior Year UW ◊	
£m	**H1'18**	**H1'17**	**H1'18**	**H1'17**	**H1'18**	**H1'17**
Scandinavia	112	162	95	120	17	42
Canada	(4)	40	(29)	19	25	21
UK & International	72	32	27	22	45	10
Central functions	(9)	(12)	(14)	(18)	5	6
Total Group	**171**	**222**	**79**	**143**	**92**	**79**

Current year profit was £79m (H1 2017: £143m):

- The Group attritional loss ratio of 55.3% was 0.4 points higher than H1 2017 (54.9%) but 0.3 points better than H2 (55.6%). The ratio was broadly flat year-on-year when adjusted for the impact of changes in reinsurance. Scandinavia was 0.1 points better than last year. Canada was in line with our plans and flat versus H1 2017[1]; Auto price increases also earn through more strongly in H2. The UK & International attritional loss ratio was 0.4 points better than H1 last year[1]. Pleasingly, the first half of 2018 was 1.6 points[1] better than the 2017 full year ratio as pricing and underwriting actions start to earn through
- Weather was the dominant feature of the first half and the comparison is further distorted by a benign H1 2017. Group weather costs were £155m or 4.9% of net earned premiums (H1 2017: 1.2%; five year average: 3.2%). Canada was the most affected region with a weather ratio of 10%, twice the annual five year average. In particular, at a cost to the industry of more than $500m, the windstorm of early May is likely to be the most costly insured event in Ontario and Quebec since the 2013 Toronto floods[2]. The UK & Ireland saw Storms Eleanor and Emma, with Emma known locally as the 'Beast from the East' and costing an estimated £47m pre-tax
- Large losses were £310m or 9.7% of net earned premiums (H1 2017: 11.4%; five year average: 9.0%). Pleasingly, both Canada and the UK & International reported improved ratios in line with our plans after seeing elevated large losses in 2017. Losses increased in Scandinavia, albeit one Commercial Property fire loss accounted for about half of the increase and added 0.6 points to the Group loss ratio. All large losses are independently reviewed and the 2018 Scandinavian results to date point to volatility rather than the emergence of an underwriting issue.

Group prior year profit was £92m, higher than our planning assumption and providing a 3.0 point benefit (H1 2017: 2.8 points) to the combined ratio. It 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 of 5% of best estimate claims reserves.

Underwriting operating expenses

The Group underwriting expense ratio of 14.6% was 0.3 points better than last year (H1 2017: 14.9%). All regions contributed with improvements of 0.7 points in Scandinavia, 0.1 points in Canada and 0.2 points in UK & International.

[1] *When adjusted for changes in reinsurance*
[2] *Source: Catastrophe Indices and Quantification Inc.*

Commissions

The commission ratio of 13.2% improved by 0.4% (H1 2017: 13.6%) mainly due to a lower proportion of Commercial Lines in the business mix.

Investment result

The investment result was £136m (H1 2017: £148m) with investment income of £160m (H1 2017: £171m), investment expenses of £7m (H1 2017: £6m) and the liability discount unwind of £17m (H1 2017: £17m).

Investment income was down 6% on last year, primarily due to ongoing reinvestment at lower yields. The average book yield across our major bond portfolios was down slightly to 2.3% (H1 2017: 2.4%).

Based on current forward bond yields and foreign exchange rates, it is estimated that investment income will be c.£300-310m for 2018.

Total controllable costs

Group written total controllable costs were down 2%[1] to £697m. This comprised 4% cost reductions, offset by 2% inflation. Scandinavia delivered year-on-year cost reductions of 8%, while UK & International delivered 3%. In Canada, costs increased by 1%; while staff costs reduced, higher software amortisation and IT costs reflected capability investments and supported growth initiatives.

Group FTE[2] decreased by 4% since H1 2017.

The earned controllable expense ratio improved by 0.7 points[1] to 21.5% in H1 2018. It is now down 4.3 points since the start of 2014[3], making good progress towards our ambition of an earned controllable expense ratio of less than 20%.

Earned controllable expense ratio: ◊	Scandinavia %	Canada %	UK & International %	**Total %**
6 months ended 30 June 2018	**22.5**	**19.1**	**21.5**	**21.5**
6 months ended 30 June 2017	24.2	19.3	21.3	22.1

Non-operating items

Interest costs:

- Interest costs were £13m (£20m including the Tier 1 issuance – see below), down from £30m in H1 2017. The reduction reflects the debt restructuring actions taken in 2016 and 2017
- Coupon costs for the 2017 Tier 1 issuance are reflected at the bottom of the management P&L as 'other equity costs', as per accounting rules. The cost for H1 was £7m (H1 2017: £3m).

[1] At constant FX
[2] Full time equivalent employees
[3] Group excluding disposals

Other non-operating charges:

£m	H1 2018	H1 2017
Net gains/ losses/ FX	15	44
Restructuring charges:		
Debt buyback premium	-	(59)
Reorganisation costs	-	(41)
Amortisation	(7)	(8)
Pension net interest cost	(3)	(3)
Total ◊	**5**	**(67)**

- Net gains of £44m in H1 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
- H1 2017 also included a charge of £59m relating to the premium paid on the retirement of c.£600m in high coupon debt
- As expected, no non-operating reorganisation costs were incurred in H1 (H1 2017: £41m).

Tax

The Group reported a tax charge of £51m for H1 2018, giving an effective tax rate ('ETR') of 17% (H1 2017: 22%). The tax charge largely comprises tax payable on overseas profits. The Group underlying tax rate for H1 2018 was 19% (H1 2017: 22%).

The carrying value of the Group's net deferred tax asset at 30 June 2018 was £194m (31 December 2017: £220m), of which £197m (31 December 2017: £217m) is in the UK. The change in the carrying values of the Group and UK deferred tax assets is mainly due to a decrease in the IAS 19 deficit on a UK pension fund. At current tax rates, a further £235m (31 December 2017: £229m) of deferred tax assets remain available for use but not recognised on balance sheet; these are predominantly in the UK and Ireland.

The Group ETR and underlying tax rates for 2018 are likely to be below 20% (2017: 22%).

Dividend

We are pleased to declare an interim dividend of 7.3p per ordinary share, up 11% (H1 2017: 6.6p). Our medium term policy for full year ordinary dividend payouts is unchanged – targeting between 40-50% of earnings, with additional distributions where justified.

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	235	10	-	245	-	245	283
Foreign exchange losses net of tax	(36)	3	-	(33)	-	(33)	(27)
Fair value losses net of tax	(49)	-	-	(49)	-	(49)	(49)
Pension fund gains net of tax	164	-	-	164	-	164	164
Share issue	5	-	-	5	-	5	5
Share based payments	8	-	-	8	-	8	8
Prior year final dividend	(133)	(11)	-	(144)	-	(144)	(133)
Other equity costs[2]	(12)	-	-	(12)	-	(12)	(12)
Goodwill and intangible additions	-	-	-	-	-	-	(74)
Balance at 30 June 2018	**3,835**	**154**	**297**	**4,286**	**441**	**4,727**	**2,930**
Per share (pence) ◊							
At 1 January 2018	345						270
At 30 June 2018	**361**						**285**

Tangible net assets increased by 6% to £2.9bn at 30 June 2018.

The increase was driven by profit after tax of £283m offset by foreign exchange movements of £27m and fair value mark-to-market movements of £49m. The latter mainly reflected a reduction in the bond unrealised gains reserve driven by the bond pull-to-par effect. Payment of the 2017 final dividend (£133m) also reduced tangible net assets, together with investment of £74m in intangible assets, primarily IT related (net investment of £34m after amortisation shown as part of profit).

The IAS 19 pension valuation generated a gain of £164m and this was primarily as a result of an increase 'AA' corporate bond spreads (see page 22 for further detail).

TNAV per share increased by 6% to 285p.

[1] Ordinary shareholders' funds including preference share capital of £125m
[2] Includes preference dividends of £5m and coupons of £7m paid on Restricted Tier 1 securities

CAPITAL POSITION

Solvency II position[1]:	Requirement (SCR) £bn	Eligible Own Funds £bn	Surplus £bn	Coverage %
30 June 2018	**1.8**	**3.0**	**1.2**	**169%**
31 December 2017	1.8	2.9	1.1	163%

The Solvency II coverage ratio[1] increased to 169% during H1 2018 (31 December 2017: 163%):

	%
At 1 January 2018	**163**
Underlying capital generation	12
Net capital investment after amortisation	(2)
Pull-to-par on unrealised bond gains	(3)
Notional dividend[2]	(5)
IAS 19 movements	6
Market movements excluding IAS 19 and other	(2)
At 30 June 2018	**169**

Please refer to Appendix (page 21) for further Solvency II details (including sensitivities).

OUTLOOK

In the second half of 2018, we will continue the drive to improve business capabilities for customers and shareholders.

We are anticipating market conditions comparable to H1. We target improved underwriting profits based on more normal weather costs and further progress against other aspects of the underwriting result.

Investment income of c.£140-150m is anticipated for H2.

Overall, we aim to deliver attractive full year 2018 performance.

[1] The Solvency II capital position at 30 June 2018 is estimated
[2] Equates to the mid-point of the 40-50% normal policy range

REGIONAL REVIEW – SCANDINAVIA

Management basis

	Net written premiums		Change		Underwriting result	
	H1'18	H1'17	**RFX**	**CFX**	**H1'18**	H1'17
	£m	£m	**%**	**%**	**£m**	£m
Split by country						
Sweden	577	563	2	6	113	123
Denmark	409	409	-	(2)	14	45
Norway	71	92	(23)	(21)	(15)	(6)
Total Scandinavia	**1,057**	**1,064**	**(1)**	**1**	**112**	**162**
Split by class						
Household	186	183	2	3		
Personal Motor	198	188	5	7		
Personal Accident & Other	193	179	8	11		
Total Scandinavia Personal	**577**	**550**	**5**	**7**	**114**	**124**
Policy count change			*1*	*1*		
Property	199	210	(5)	(5)		
Liability	97	99	(2)	(2)		
Commercial Motor	130	135	(4)	(2)		
Other	54	70	(23)	(23)		
Total Scandinavia Commercial	**480**	**514**	**(7)**	**(6)**	**(2)**	**38**
Volume change			*(10)*	*(10)*		
Total Scandinavia	**1,057**	**1,064**	**(1)**	**1**	**112**	**162**
Investment result					35	40
Scandinavia operating result					**147**	**202**

Operating ratios (%)	Claims		Commission		Expenses		Combined	
	H1'18	H1'17	**H1'18**	H1'17	**H1'18**	H1'17	**H1'18**	H1'17
Scandinavia Personal	**62.4**	**59.5**	**3.0**	**3.0**	**12.9**	**13.1**	**78.3**	**75.6**
Scandinavia Commercial	**80.1**	**70.2**	**4.0**	**2.3**	**16.3**	**17.6**	**100.4**	**90.1**
Total Scandinavia	**69.8**	**64.2**	**3.5**	**2.7**	**14.3**	**15.0**	**87.6**	**81.9**
Earned controllable expense ratio					*22.5*	*24.2*		
Claims ratio:			*5 year average*					
Weather loss ratio	*0.5*	*0.0*	*1.0*					
Large loss ratio	*8.0*	*5.8*	*5.7*					
Current year attritional loss ratio	*63.0*	*63.1*						
Prior year effect on loss ratio	*(1.7)*	*(4.7)*						

SCANDINAVIA

Scandinavia delivered operating profit of £147m for H1 2018, down 25%[1]. The combined ratio (87.6%) was 5.7 points higher than last year, mainly due to lower prior year development (down 3 points) after an unusually positive result in H1 2017. Elevated large losses also contributed (up 2.2 points).

Net written premiums of £1,057m were up 1% at constant FX, with Personal Lines premiums up 7%[1]. Swedish Personal Lines grew by 10%[1] and policies-in-force ('PIFs') were 2% higher year-on-year. Motor PIFs were up 3%, mainly due to strong online new business, while Personal Accident grew by 2%. Danish Personal Lines premiums were up 3%[1] within which Motor PIFs grew by 1%. Commercial Lines premiums were down 6%[1] with volumes down 10%. We exited two schemes in Norway in 2017 which accounted for 4%[1] of the reduction in premiums.

Customer metrics are developing well. We rolled out an 'effortless' measure across the region to determine and then track how seamless customer interactions are against defined targets. Customer satisfaction scores are improving, with Danish Personal Lines showing the highest quarterly score for three years in Q1 (80%). We continue to invest in online sales capabilities which is being well received by customers; in Sweden, online sales were 74% higher in the first half than H1 last year. Overall, retention was slightly lower than last year at 78%. Sweden and Denmark both improved; however, Norway reduced as a result of scheme exits.

The current year attritional loss ratio of 63.0% improved versus H1 2017. Good progress in Denmark was offset by challenges in Norway, where the attritional ratio was impacted by higher weather-related frequency and by underperforming schemes currently in remediation. Large losses were elevated at 8.0% compared to the five year average of 5.7% (H1 2017: 5.8%). While frequency was higher than last year, one Commercial Property fire loss in Denmark contributed 1.3 points to the loss ratio. All large losses are independently reviewed and the results to date point to volatility rather than the emergence of an underwriting trend. The prior year effect on the loss ratio was particularly positive in H1 2017, producing a benefit of 4.7%; the H1 2018 ratio of 1.7% is closer to the levels at which we typically plan.

The performance improvement programme continued to deliver well. We are building a centre of excellence to drive end-to-end Lean processes, working to optimise data management across the region and investing in a data analytics team. We have also established a new change management framework, launched zero-based budgeting and more than 90% of leaders have now participated in a new leadership development programme. Key regional appointments included a Chief Operating Officer and a Chief Data Officer.

Total written controllable expenses were down 6% year-on-year[1], with 8% cost reductions absorbing 2% inflation. The earned controllable cost ratio of 22.5% improved by 1.7 points. Staff related costs reduced by 8%[1] in H1 2018 with headcount down 6% against H1 2017 and down 23% since the end of 2013. Denmark delivered the most progress, reducing the controllable cost ratio by 4.2 points.

Geographically, Sweden generated an underwriting profit of £113m (H1 2017: £118m[1]) and a combined ratio of 77.9% (H1 2017: 76.1%[1]). The weather loss ratio was 0.7 points higher than last year, while the prior year contributed 0.7 points less. Denmark produced an underwriting profit of £14m (H1 2017: £46m[1]) and a combined ratio of 95.7% (H1 2017: 84.9%[1]). Pleasingly, the Personal Lines combined ratio improved by 1.5 points helped by a reduction in the attritional loss ratio. However, the Commercial Lines ratio deteriorated by 19.1 points due to elevated large losses and a lower prior year result. The underwriting loss in Norway of £15m (H1 2017: £5m[1] loss) was impacted by adverse winter weather and a deterioration in attritional claims. In particular, Household saw higher weather-related claims frequency and Motor continued to experience inflation in repair costs. The Norwegian Motor market is highly competitive, while rate has struggled to keep pace with claims inflation, there are signs that the market is beginning to harden.

[1] *At constant FX*

REGIONAL REVIEW – CANADA

Management basis

	Net written premiums		Change		Underwriting result	
	H1'18	H1'17	**RFX**	**CFX**	**H1'18**	H1'17
	£m	£m	%	%	**£m**	£m
Household	202	201	-	5		
Personal Motor	297	301	(1)	3		
Total Canada Personal	**499**	**502**	**(1)**	**4**	**(14)**	**32**
Policy count change			2	2		
Property	89	89	-	5		
Liability	49	51	(4)	-		
Commercial Motor	69	61	13	19		
Marine & Other	23	25	(8)	(4)		
Total Canada Commercial	**230**	**226**	**2**	**6**	**10**	**8**
Volume change			*5*	*5*		
Total Canada	**729**	**728**	**-**	**5**	**(4)**	**40**
Investment result					29	31
Canada operating result					**25**	**71**

Operating ratios (%)	**Claims**		**Commission**		**Expenses**		**Combined**	
	H1'18	H1'17	**H1'18**	H1'17	**H1'18**	H1'17	**H1'18**	H1'17
Canada Personal	**76.2**	67.3	**11.0**	11.2	**15.4**	15.5	**102.6**	94.0
Canada Commercial	**61.7**	62.5	**18.5**	18.4	**15.6**	15.7	**95.8**	96.6
Total Canada	**71.7**	65.8	**13.3**	13.4	**15.5**	15.6	**100.5**	94.8
Earned controllable expense ratio					*19.1*	*19.3*		

Claims ratio:			*5 year average*
Weather loss ratio	*10.0*	*2.7*	*5.0*
Large loss ratio	*6.9*	*8.2*	*5.1*
Current year attritional loss ratio	*58.2*	*57.9*	
Prior year effect on loss ratio	*(3.4)*	*(3.0)*	

CANADA

Canada delivered operating profit of £25m for H1 2018, down from £68m[1] in the prior year. Adverse weather was the dominant feature and the comparison is further distorted by a benign H1 2017.

Net written premiums of £729m were up 5% at constant FX (H1 2017: £695m[1]). In Personal Lines, policy counts were up 2% and Johnson, our direct and affinity business, continued to grow organically (3%). Retention performed particularly well, with both Johnson and Personal broker improving over last year to 90% and 88% respectively. This was despite holding our discipline on rate in Auto and Household. We are pleased to have announced that Scotiabank, one of Canada's leading retail financial services providers, has agreed to switch its exclusive general insurance partnership to RSA from 2019, giving us an exciting new distribution channel. In Commercial Lines, volumes increased by 5% over H1 2017. While retention was down, new business was up and rate was ahead of both last year and our plans.

We continue to work hard on our customer offering. In Johnson, NPS reached a new high of +52 in Q1 (up 5 points). We are enhancing the customer journey and telephony statistics (such as call answering time) have improved, driven by staff proficiency and lower call volumes as a result of digital initiatives. Our automatic call back for qualified leads had a quote rate of 82% in H1. In the broker channel, the 2018 'voice of the broker' survey scored NPS at +48 and scored the ease of doing business with RSA at 79%.

The business generated an underwriting loss of £4m as a consequence of the adverse weather (H1 2017: £38m[1] profit). This was composed of a current year loss of £29m and a prior year profit of £25m. The attritional loss ratio of 58.2% was up 0.3 points in H1 due to higher reinsurance costs. Within this, increased frequency and severity in mid-sized losses (particularly fire) impacted Household and Commercial Auto saw some deterioration in haulage and taxis. Personal Auto improved in both Johnson and the broker channel, reflecting rate supported by a series of claims initiatives. Ontario and Alberta make up the majority of our Auto premiums and, by the end of 2018, we will have put almost 10% of rate through these provinces over the last 18 months. The weather loss ratio stepped out by 7.3 points to 10%, twice the annual five year average of 5%. Canada endured a series of significant weather events in H1. At an estimated cost to the industry of more than $500m, the early May windstorm is likely to be the most costly insured event in Ontario and Quebec since the 2013 Toronto floods[2]. Relative to peers, our book is slightly weighted towards Household and Commercial Property risks which are more exposed to events of this nature. The large loss ratio was 6.9% and closer to the five year average; while volatile by nature, this was also helped by our improved propensity modelling capability. Prior year reserve releases of 3.4% were marginally higher than last year (H1 2017: 3.0%). Overall, the combined ratio was 100.5% (H1 2017: 94.8%).

Our business improvement programme is progressing well. Enhancements to pricing sophistication include more segmented peril rating in Household, where we have increased the number of price points from thousands to millions and introduced more than 20 new target segments. Radar is helping us to improve the speed and efficacy of our regulatory rate filings. The implementation of the Guidewire claims system is proceeding as planned, bringing paperless technology and a customer-facing portal. Finally, we continue to roll-out Lean, including sustainability checks for early adopters.

Total written controllable expenses of £146m were up 3%[1] in H1 2018 or 1%[1] excluding inflation. While staff costs were 1%[1] lower, higher software amortisation and IT costs reflected capability investments and supported growth initiatives. Importantly, the earned controllable expense ratio of 19.1% improved again. Productivity also improved, with a 12% increase in premiums per FTE in June 2018 compared to June 2017. Finally, headcount was down 7% in H1 2018 and is now down 21% since the end of 2013.

[1] *At constant FX*
[2] *Source: Catastrophe Indices and Quantification Inc.*

REGIONAL REVIEW – UK & INTERNATIONAL

Management basis

	Net written premiums		Change		Underwriting result	
	H1'18	H1'17	**RFX**	**CFX**	**H1'18**	H1'17
	£m	£m	%	%	**£m**	£m
Household	313	261	20	20		
Personal Motor	113	149	(24)	(24)		
Pet	130	144	(10)	(10)		
Total UK Personal	**556**	**554**	**-**	**-**	**(11)**	**7**
Policy count change			*(3)*	*(3)*		
Property	288	334	(14)	(14)		
Liability	147	155	(5)	(5)		
Commercial Motor	91	114	(20)	(19)		
Marine & Other	197	207	(5)	(2)		
Total UK Commercial	**723**	**810**	**(11)**	**(10)**	**50**	**10**
Volume change			*(10)*	*(10)*		
Total UK	**1,279**	**1,364**	**(6)**	**(6)**	**39**	**17**
Ireland	151	152	(1)	(3)	19	2
Middle East	102	112	(9)	-	14	13
Total UK & International	**1,532**	**1,628**	**(6)**	**(5)**	**72**	**32**
Investment result					**72**	**77**
UK & International operating result					**144**	**109**

Operating ratios (%)	**Claims**		**Commission**		**Expenses**		**Combined**	
	H1'18	H1'17	**H1'18**	H1'17	**H1'18**	H1'17	**H1'18**	H1'17
Total UK Personal	**64.1**	**60.8**	**19.7**	**20.9**	**18.1**	**17.0**	**101.9**	**98.7**
Total UK Commercial	**62.3**	**65.9**	**20.1**	**20.5**	**10.8**	**12.3**	**93.2**	**98.7**
Total UK	**63.1**	**63.7**	**19.9**	**20.7**	**14.0**	**14.3**	**97.0**	**98.7**
Ireland	63.3	74.5	11.5	11.6	12.5	12.7	87.3	98.8
Middle East	47.0	50.5	17.7	18.7	20.2	18.1	84.9	87.3
UK & International	**62.1**	**64.0**	**19.0**	**19.6**	**14.2**	**14.4**	**95.3**	**98.0**
Earned controllable expense ratio					*21.5*	*21.3*		

Claims ratio:			*5 year average*
Weather loss ratio	*4.8*	*1.1*	*4.0*
Large loss ratio	*11.3*	*15.3*	*12.4*
Current year attritional loss ratio	*49.3*	*48.9*	
Prior year effect on loss ratio	*(3.3)*	*(1.3)*	

UK & INTERNATIONAL

UK & International delivered an operating profit of £144m in H1 2018, up 33%. The combined ratio (95.3%) was 2.7 points better than last year, despite a 3.7 point increase in weather costs.

UK

The UK business, including European branches and 'London market' international business, generated an underwriting profit of £39m in H1, up 129%. The combined ratio of 97.0% was 1.7 points better.

Net written premiums were down 6% in H1 2018 or 3% 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 in line with H1 2017 as reported, but up 4% excluding reinsurance changes. Household premiums were up 20%. Our partnership with Nationwide is doing well and generated premiums of £86m in its first full 6 months of trading; retention was 87% and NPS scores are strong (claims +68%; sales % service +64%). On the wider book, we are holding our discipline on rate to mitigate the 'escape of water' issues which presented in H2 2017. However, rate of between 4% and 17%, depending on the channel, drove a decrease in retention and new business. In Motor, H1 premiums were 24% lower than last year, although this was 12% excluding reinsurance changes. We applied rate of 9% and this impacted retention and new business in a softening market. Pet volumes were down 10% and were impacted by rate of 17%.

On Commercial Lines, premiums were down 11% as reported, but down 7% excluding reinsurance changes. Rate has been positive in all major classes in H1; for example, Motor achieved rate of 9% and Marine achieved 7%. However, holding our underwriting discipline has meant a trade-off with top line (volumes down 10%) in ongoing 'soft' market conditions. The decrease in premiums also reflected underwriting decisions on some large individual risks (in Property and Marine in particular) and our exit from certain large schemes as we restructure our delegated authority book.

The improvement in the combined ratio of 1.7 points was achieved despite weather of 5.1% (H1 2017: 1.3%), with Storm Emma costing an estimated £42m pre-tax (£47m including Ireland). Pleasingly, large losses reduced by 3.9 points and are now trending closer to the five year average, although this comes with the usual volatility caveat. Excluding the impact of reinsurance changes, the attritional loss ratio in H1 2018 was 0.3 points higher than H1 last year. However, it was 1.4 points better than the 2017 full year ratio as pricing and underwriting actions start to earn through.

Written controllable expenses of £280m were down 1% in H1, with 3% cost reductions offset by 2% inflation. The earned controllable cost ratio of 21.2% was broadly unchanged, despite the contraction in premiums. Headcount was down 1% in H1 2018 and is now down 22% since the end of 2013.

Ireland

Ireland's performance improved strongly in the first half, generating an underwriting profit of £19m (H1 2017: £2m) on a combined ratio of 87.3% (H1 2017: 98.8%). The attritional loss ratio of 57.6% was 3.3 points better, while the large loss ratio improved by 6.3 points following elevated losses last year. The result was helped by favourable prior year development of 3.2%, compared to adverse development of 2.2% in H1 2017. Net written premiums of £151m were down 3% at constant FX.

Middle East

The Middle East delivered an underwriting profit of £14m (H1 2017: £13m) and another record combined ratio of 84.9% (H1 2017: 87.3%). This was driven by a 3.0 point improvement in the attritional loss ratio. Net written premiums of £102m were flat at constant FX.

INVESTMENT PERFORMANCE

Management basis

Investment result	H1 2018 £m	H1 2017 £m	Change %
Bonds	121	136	(11)
Equities (largely REITs)	18	16	13
Cash and cash equivalents	4	3	33
Property	10	11	(9)
Other	7	5	40
Investment income	**160**	**171**	**(6)**
Investment expenses	(7)	(6)	(17)
Unwind of discount	(17)	(17)	-
Investment result	**136**	**148**	**(8)**

Balance sheet unrealised gains (pre-tax)	30 June 2018 (£m)	31 Dec 2017 (£m)	Change %
Bonds	326	397	(18)
Equities (largely REITs)	34	30	13
Other	1	1	-
Total	**361**	**428**	**(16)**

Investment portfolio	Value 31 Dec 2017 £m	Foreign exchange £m	Mark to market £m	Other movements £m	Transfer from assets held for sale £m	Value 30 June 2018 £m
Government bonds	3,850	(77)	(13)	165	-	3,925
Non-Government bonds	6,810	(129)	(70)	(67)	-	6,544
Cash	1,048	(13)	-	(261)	-	774
Equities (largely REITs)	242	(17)	7	-	-	232
Property	308	-	4	1	-	313
Prefs & CIVs	522	(3)	(1)	32	-	550
Other	219	(2)	2	51	-	270
Total	**12,999**	**(241)**	**(71)**	**(79)**	**-**	**12,608**
Split by currency:						
Sterling	3,468					3,275
Danish Krone	1,096					1,154
Swedish Krona	2,588					2,380
Canadian Dollar	3,079					2,896
Euro	1,443					1,447
Other	1,325					1,456
Total	**12,999**					**12,608**

Credit quality – bond portfolio	Non-government		Government	
	30 June 2018 %	31 Dec 2017 %	30 June 2018 %	31 Dec 2017 %
AAA	43	42	66	66
AA	14	15	29	30
A	29	30	5	4
BBB	12	11	-	-
< BBB	2	2	-	-
Non-rated	-	-	-	-
Total	**100**	**100**	**100**	**100**

INVESTMENT PERFORMANCE

Investment income of £160m (H1 2017: £171m) was offset by investment expenses of £7m (H1 2017: £6m) and the liability discount unwind of £17m (H1 2017: £17m). Investment income was down 6% on prior year reflecting a number of factors including the reinvestment of bonds at lower yields and some strengthening of Sterling.

The average book yield over the period on the total portfolio was 2.5% (H1 2017: 2.5%), with average yield on the bond portfolio of 2.3% (H1 2017: 2.4%). Reinvestment yields on the Group's major bond portfolios over the year was approximately 1.5%.

At 30 June 2018, the average duration of the Group's bond portfolios is marginally lower at 3.7 years (31 December 2017: 3.8 years).

The investment portfolio decreased by 3% during the first 6 months to £12.6bn. The movement was driven primarily by FX translation of regional portfolios and negative mark to market on bond holdings.

At 30 June 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 71% rated AA or above. We remain well diversified by sector and geography.

Unrealised bond gains and pull-to-par

Balance sheet unrealised gains of £361m (pre-tax) reduced by £67m or 18% during the first half, driven by negative mark-to-market on bond holdings due to yield movements and bond pull-to-par (c.£50m).

Outlook

Based on forward bond yields and foreign exchange rates, it is estimated that investment income will be c.£140-150m for H2 2018.

Based on forward yields, c.£70m of unrealised gains on the AFS portfolio are expected to unwind in H2 2018. The capital impact of this amount is under £50m, the balance being projected yield change.

These projections are, however, sensitive to changes in market conditions.

APPENDIX 1

Further information

CAPITAL

Solvency II sensitivities

Underlying sensitivities are broadly in line with those published for the year ending 31 December 2017.

Coverage ratio at 30 June 2018	**169%**	
Sensitivities (change in coverage ratio):	Including pensions	Excluding pensions
Interest rates: +1% non-parallel[1] shift	+9%	+6%
Interest rates: -1% non-parallel[1] shift	-9%	-8%
Equities: -15%	-7%	-2%
Property: -10%	-3%	-2%
Foreign exchange: GBP +10% vs all currencies	-4%	-5%
Cat loss of £75m net	-4%	-4%
Credit spreads: +0.25%[2] 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

	30 June 2018 £bn
Shareholders' funds[3]	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	(0.3)
Basic Own Funds	**3.6**
Tiering & availability restrictions	(0.5)
Foreseeable dividends	(0.1)
Eligible Own Funds	**3.0**

[1] *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*

[2] *The asymmetry in credit spread sensitivities reflects the fact that upside pension sensitivities are restricted to the surplus cap. The upside sensitivity should not therefore be extrapolated*

[3] *Includes preference shares and Restricted Tier 1 notes*

PENSIONS

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 30 June 2018:

	UK £m	non-UK £m	Group £m
Net pension fund deficit at 1 January 2018	**(23)**	**(65)**	**(88)**
Actuarial gains[1]	170	6	176
Deficit funding	48	2	50
Other movements[2]	4	3	7
Pension fund surplus/ (deficit) at 30 June 2018	**199**	**(54)**	**145**

At an aggregate level, the pension fund position under IAS 19 improved during H1 2018 from a £88m deficit at 1 January 2018 to a surplus of £145m at 30 June 2018 (net of tax).

This was driven primarily by widening credit spreads over the period, in addition to the deficit funding contributions paid.

REINSURANCE

Updates to our reinsurance programme for 2018 are outlined below.

The 3 year Group aggregate reinsurance cover that commenced in 2015 has been renewed until the end of 2020. The key terms of the new 3 year deal are as follows:

- Cover protects all of 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 (45% AA- or better, 46% A- or better, 9% collateralised).

Retentions for our UK and Ireland Motor programme have been reduced to £1m and €1m respectively (£3m and €3m respectively in 2017).

Outside of these, our key retentions remain unchanged at £75m for UK Cat; £50m for non-UK Cat (Canada/ US/ Caribbean C$75m); maximum of £50m for Property Risk.

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

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

SEGMENTAL ANALYSIS

Management basis – 6 months ended 30 June 2017

	Scandinavia £m	Canada £m	UK & International £m	Central functions £m	**Group H1 2017 £m**
Net written premiums	**1,064**	**728**	**1,628**	**29**	**3,449**
Net earned premiums	896	777	1,586	(8)	3,251
Net incurred claims	(575)	(511)	(1,014)	(2)	(2,102)
Commissions	(24)	(105)	(312)	-	(441)
Operating expenses	(135)	(121)	(228)	(2)	(486)
Underwriting result ◊	**162**	**40**	**32**	**(12)**	**222**
Investment income	54	34	83	-	171
Investment expenses	(2)	(1)	(3)	-	(6)
Unwind of discount	(12)	(2)	(3)	-	(17)
Investment result ◊	**40**	**31**	**77**	**-**	**148**
Central expenses	-	-	-	(10)	(10)
Operating result ◊	**202**	**71**	**109**	**(22)**	**360**
Interest					(30)
Other non-operating charges					(67)
Profit before tax					**263**
Tax					(57)
Profit after tax					**206**
Non-controlling interest					(10)
Other equity costs[1]					(8)
Net attributable profit ◊					**188**
Underlying profit before tax ◊					**330**
Loss ratio (%)	64.2	65.8	64.0	-	64.7
Weather loss ratio	*0.0*	*2.7*	*1.1*	-	*1.2*
Large loss ratio	*5.8*	*8.2*	*15.3*	-	*11.4*
Current year attritional loss ratio ◊	*63.1*	*57.9*	*48.9*	-	*54.9*
Prior year effect on loss ratio	*(4.7)*	*(3.0)*	*(1.3)*	-	*(2.8)*
Commission ratio (%)	2.7	13.4	19.6	-	13.6
Expense ratio (%)	15.0	15.6	14.4	-	14.9
Combined ratio (%) ◊	**81.9**	**94.8**	**98.0**	**-**	**93.2**
Earned controllable expense ratio (%) ◊	24.2	19.3	21.3	-	22.1

[1] Preference dividends of £5m and coupons of £3m paid on 2017 issued Restricted Tier 1 securities

COMBINED RATIO DETAIL

Group

£m unless stated		Current year		Prior year		**H1 2018 total**	Current year	Prior year	**H1 2017 total**
Net written premiums	*1*	**3,190**	*7*	**29**	*13*	**3,219**	**3,430**	**19**	**3,449**
Net earned premiums	*2*	3,195	*8*	17	*14*	3,212	3,236	15	3,251
Net incurred claims	*3*	(2,233)	*9*	85	*15*	(2,148)	(2,186)	84	(2,102)
Commissions	*4*	(413)	*10*	(10)	*16*	(423)	(424)	(17)	(441)
Operating expenses	*5*	(470)	*11*	-	*17*	(470)	(483)	(3)	(486)
Underwriting result ◊	*6*	**79**	*12*	**92**	*18*	**171**	**143**	**79**	**222**
CY attritional claims	*19*	(1,768)					(1,778)		
Weather claims	*20*	(155)					(38)		
Large losses	*21*	(310)					(370)		
Net incurred claims	*22*	(2,233)					(2,186)		
Loss ratio (%)			*=15 / 14*		*23*	*66.9*			64.7
Weather loss ratio			*=20 / 2*		*24*	*4.9*			*1.2*
Large loss ratio			*=21 / 2*		*25*	*9.7*			*11.4*
Current year attritional loss ratio ◊			*=19 / 2*		*26*	*55.3*			*54.9*
Prior year effect on loss ratio			*=23 - 24 - 25 - 26*		*27*	*(3.0)*			*(2.8)*
Commission ratio (%)			*=16 / 14*		*28*	13.2			13.6
Expense ratio (%)			*=17 / 14*		*29*	14.6			14.9
Combined ratio (%) ◊			*=23 + 28 + 29*		*30*	**94.7**			**93.2**

Scandinavia

£m unless stated	Current year	Prior year	**H1 2018 total**	Current year	Prior year	**H1 2017 total**
Net written premiums	**1,051**	**6**	**1,057**	**1,066**	**(2)**	**1,064**
Net earned premiums	890	6	896	896	0	896
Net incurred claims	(637)	11	(626)	(617)	42	(575)
Commissions	(30)	-	(30)	(24)	0	(24)
Operating expenses	(128)	-	(128)	(135)	0	(135)
Underwriting result	**95**	**17**	**112**	**120**	**42**	**162**
CY attritional claims	(561)			(565)		
Weather claims	(5)			0		
Large losses	(71)			(52)		
Net incurred claims	(637)			(617)		
Loss ratio (%)			69.8			64.2
Weather loss ratio			*0.5*			-
Large loss ratio			*8.0*			*5.8*
Current year attritional loss ratio			*63.0*			*63.1*
Prior year effect on loss ratio			*(1.7)*			*(4.7)*
Commission ratio (%)			3.5			2.7
Expense ratio (%)			14.3			15.0
Combined ratio (%)			**87.6**			**81.9**

COMBINED RATIO DETAIL

Canada

£m unless stated	Current Year	Prior year	**H1 2018 total**	Current year	Prior year	**H1 2017 total**
Net written premiums	**729**	**-**	**729**	**728**	**-**	**728**
Net earned premiums	771	-	771	777	-	777
Net incurred claims	(578)	25	(553)	(535)	24	(511)
Commissions	(103)	-	(103)	(105)	-	(105)
Operating expenses	(119)	-	(119)	(118)	(3)	(121)
Underwriting result	**(29)**	**25**	**(4)**	**19**	**21**	**40**
CY attritional claims	(448)			(450)		
Weather claims	(77)			(21)		
Large losses	(53)			(64)		
Net incurred claims	(578)			(535)		
Loss ratio (%)			71.7			65.8
Weather loss ratio			*10.0*			*2.7*
Large loss ratio			*6.9*			*8.2*
Current year attritional loss ratio			*58.2*			*57.9*
Prior year effect on loss ratio			*(3.4)*			*(3.0)*
Commission ratio (%)			13.3			13.4
Expense ratio (%)			15.5			15.6
Combined ratio (%)			**100.5**			**94.8**

Total UK&I

£m unless stated	Current year	Prior year	**H1 2018 total**	Current year	Prior year	**H1 2017 total**
Net written premiums	**1,508**	**24**	**1,532**	**1,607**	**21**	**1,628**
Net earned premiums	1,537	11	1,548	1,570	16	1,586
Net incurred claims	(1,006)	44	(962)	(1,025)	11	(1,014)
Commissions	(284)	(10)	(294)	(295)	(17)	(312)
Operating expenses	(220)	-	(220)	(228)	-	(228)
Underwriting result	**27**	**45**	**72**	**22**	**10**	**32**
CY attritional claims	(758)			(768)		
Weather claims	(74)			(17)		
Large losses	(174)			(240)		
Net incurred claims	(1,006)			(1,025)		
Loss ratio (%)			62.1			64.0
Weather loss ratio			*4.8*			*1.1*
Large loss ratio			*11.3*			*15.3*
Current year attritional loss ratio			*49.3*			*48.9*
Prior year effect on loss ratio			*(3.3)*			*(1.3)*
Commission ratio (%)			19.0			19.6
Expense ratio (%)			14.2			14.4
Combined ratio (%)			**95.3**			**98.0**

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 more representative of its underlying trading performance and that provide more meaningful comparisons between periods and business segments. APMs are identifiable within Group tables by the symbol ◊, and those used to determine management and executive remuneration are identified below with ◊*. A reconciliation of APMs to their nearest IFRS Income Statement equivalents, detailing the adjustments made, can be found below.

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.	◊	I	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.	◊	I	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	◊*	I	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.	◊	I	Q
Expense Ratio	Underwriting and policy expenses expressed as a percentage of net earned premium.	◊	I	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.			
Gross Written Premium (GWP)	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.			
IBNR (Incurred But Not Yet Reported)	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.			

<table>
<tr><th>Term</th><th>Definition</th><th>APM</th><th colspan="2">Reconciliation</th></tr>
<tr><td>Interest Costs</td><td>Interest costs represent the cost of Group debt excluding any debt buy back costs.</td><td>◊</td><td>I</td><td>O</td></tr>
<tr><td>Investment Result</td><td>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>I</td><td>AA</td></tr>
<tr><td>Large Losses</td><td>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>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>I</td><td>T</td></tr>
<tr><td>Net Asset Value (NAV) per Share</td><td>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>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>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>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="2">Non-Operating Charges</td><td>Non-operating charges represent items that are excluded to arrive at the underlying profit after tax measure.</td><td>◊</td><td>I</td><td>AD</td></tr>
<tr><td><table>
<tr><th>Item</th><th>Reason for classification</th></tr>
<tr><td>Gains and losses arising from the disposal of businesses</td><td>To allow assessment of the performance of ongoing business activities</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>Impairment of intangible assets</td><td>Where the impairment arises from restructuring activities</td></tr>
<tr><td>Reorganisation costs</td><td>To allow assessment of the performance of ongoing business activities</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>Debt buy back costs</td><td>To allow meaningful assessment of ongoing finance costs</td></tr>
</table></td><td>◊</td><td>I</td><td>AD</td></tr>
<tr><td>Operating Profit</td><td>Operating profit is profit before tax less non-operating charges.</td><td>◊</td><td>I</td><td>AC</td></tr>
<tr><td>Payout Ratio</td><td>Ordinary dividends expressed as a percentage of underlying profit after tax attributable to ordinary shareholders.</td><td></td><td></td><td></td></tr>
<tr><td>Policies in Force</td><td>The number of active insurance policies for which Group is providing cover.</td><td></td><td></td><td></td></tr>
<tr><td>Prior Year Underwriting Result</td><td>Updates to premium, claims, commission and expense estimates relating to prior years.</td><td>◊</td><td>I</td><td>P</td></tr>
</table>

Term	Definition	APM	Reconciliation	
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
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 Equity	Underlying profit after tax expressed in relation to opening shareholders' funds excluding preference share capital.	◊	2	G
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 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
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

Term	Definition	APM	Reconciliation	
Underwriting Result	A measure of underwriting performance calculated as net earned premium less net claims and underwriting and policy acquisition costs.	◊	I	Z
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.	◊	I	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.			

1. IFRS reconciliation to management P&L for the 6 months ended 30 June 2018

£'m	IFRS		Underwriting result	Investment result	Central costs	Operating result	Non-operating charges	Profit before tax
			Management					
Income								
Gross written premiums	3,950		3,950					
Less: reinsurance premiums	(731)		(731)					
Net written premiums	3,219		3,219					
Change in the gross provision for unearned premiums	(242)		(242)					
Less: change in provision for unearned reinsurance premiums	235		235					
Change in provision for unearned premiums	(7)		(7)					
Net earned premiums, analysed as	3,212	A	3,212					
Current year		B	3,195					
Prior year		C	17					
			3,212					
Investment income	160	D		160				
Realised gains on investments	6						6	
Gains / (losses) on forex derivatives	-						-	
Unrealised gains / (losses)	6						6	
Impairments	(3)						(3)	
Net investment return	169							
Other insurance income	72	E	72					
Other non-insurance income	2				2			
Foreign exchange gain	4						4	
Other operating income	78							
Total income	3,459							
Expenses								
Gross claims incurred	(2,365)		(2,365)					
Less: claims recoveries from reinsurers	217		217					
Net claims, analysed as	(2,148)	F	(2,148)					
Attritional		G	(1,768)					
Weather		H	(155)					
Large		I	(310)					
Prior year		J	85					
			(2,148)					
Earned CY commission	(413)	K	(413)					
Earned PY commission	(10)	L	(10)					
Earned CY operating expenses	(542)	M	(542)					
Earned PY operating expenses	-	N	-					
Underwriting and policy acquisition costs	(965)		(965)					
Unwind of discount	(17)			(17)				
Investment expenses	(7)			(7)				
Non-insurance expenses	(2)				(2)			
Central expenses	(4)				(4)			
Amortisation of intangible assets	(7)						(7)	
Pension net interest and administration costs	(3)						(3)	
Other operating expenses	(23)							
	(3,153)							
Interest costs	(13)	O					(13)	
Debt buy back costs	-						-	
Finance costs	(13)						(13)	
Acquisitions and disposals	2						2	
Net share of profit after tax of associates	1				1			
Profit before tax	296		171	136	(3)	304	(8)	296
Income tax expense	(51)		**Z**	**AA**	**AB**	**AC**	**AD**	
Profit for the year	245							
	C+J+L+N	P	92	PY Underwriting				
	Z - P	Q	79	CY Underwriting				
			171					

Attritional loss ratio	G/B	R	55.3%
Weather loss ratio	H/B	S	4.9%
Large loss ratio	I/B	T	9.7%
Prior year effect on loss ratio	V-R-S-T	U	(3.0)%
Loss ratio	F/A	V	66.9%
Commission ratio	(K+L)/A	W	13.2%
Expense ratio	(E+M+N)/A	X	14.6%
Combined operating ratio	V+W+X	Y	94.7%

1. IFRS reconciliation to management P&L for the 6 months ended 30 June 2017

£'m	IFRS		Underwriting result	Investment result	Central costs	Operating result	Non-operating charges	Profit before tax
			Management					
Income								
Gross written premiums	4,026		4,026					
Less: reinsurance premiums	(577)		(577)					
Net written premiums	3,449		3,449					
Change in the gross provision for unearned premiums	(295)		(295)					
Less: change in provision for unearned reinsurance premiums	97		97					
Change in provision for unearned premiums	(198)		(198)					
Net earned premiums, analysed as	3,251	A	3,251					
Current year		B	3,236					
Prior year		C	15					
			3,251					
Investment income	171	D		171				
Realised gains on investments	4						4	
Gains / (losses) on forex derivatives	(5)						(5)	
Unrealised gains / (losses)	(1)						(1)	
Impairments	-						-	
Net investment return	169							
Other insurance income	75	E	75					
Other non-insurance income	1				1			
Other operating income	76							
Total income	3,496							
Expenses								
Gross claims incurred	(2,584)		(2,584)					
Less: claims recoveries from reinsurers	482		482					
Net claims, analysed as	(2,102)	F	(2,102)					
Attritional		G	(1,778)					
Weather		H	(38)					
Large		I	(370)					
Prior year		J	84					
			(2,102)					
Earned CY commission	(424)	K	(424)					
Earned PY commission	(17)	L	(17)					
Earned CY operating expenses	(558)	M	(558)					
Earned PY operating expenses	(3)	N	(3)					
Underwriting and policy acquisition costs	(1,002)		(1,002)					
Unwind of discount	(17)			(17)				
Investment expenses	(6)			(6)				
Non-insurance expenses	(2)				(2)			
Central expenses	(10)				(10)			
Amortisation of intangible assets	(8)						(8)	
Pension net interest and administration costs	(3)						(3)	
Reorganisation costs	(41)						(41)	
Foreign exchange losses	(6)						(6)	
Other operating expenses	(76)							
	(3,197)							
Interest costs	(30)	O					(30)	
Debt buy back costs	(59)						(59)	
Finance costs	(89)						(89)	
Acquisitions and disposals	52						52	
Net share of profit after tax of associates	1				1			
Profit before tax	263		222	148	(10)	360	(97)	263
Income tax expense	(57)		Z	AA	AB	AC	AD	
Profit for the year	206							
	C+J+L+N	P	79	PY Underwriting				
	Z - P	Q	143	CY Underwriting				
			222					

Attritional loss ratio	G/B	R	54.9%
Weather loss ratio	H/B	S	1.2%
Large loss ratio	I/B	T	11.4%
Prior year effect on loss ratio	V-R-S-T	U	(2.8)%
Loss ratio	F/A	V	64.7%
Commission ratio	(K+L)/A	W	13.6%
Expense ratio	(E+M+N)/A	X	14.9%
Combined operating ratio	V+W+X	Y	93.2%

2. Metric calculations			6 months 30 June 2018 £m	6 months 30 June 2017 £m
		Profit after tax	245	206
		Less: non-controlling interest	(10)	(10)
Note 9		Less: coupon on 2017 issued restricted tier 1 instrument	(7)	(3)
Note 9		Less: preference dividend	(5)	(5)
	A	**Profit attributable to ordinary shareholders**	**223**	**188**
Rec 1 AD		Add: non-operating charges	8	97
Rec 1 O		Less: interest costs	(13)	(30)
Rec 6 E		Less: underlying tax differential	(3)	(17)
	B	**Underlying profit after tax attributable to ordinary shareholders**	**215**	**238**
		Opening shareholders' funds	**3,653**	**3,715**
		Less: preference share capital	(125)	(125)
	C	**Opening ordinary shareholders' funds**	**3,528**	**3,590**
Note 10		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)**	**1,025**	**1,020**
		Return on equity (annualised)		
(2xA)/C	**F**	Reported	**12.7%**	**10.5%**
(2xB)/C	**G**	Underlying	**12.2%**	**13.3%**
		Return on tangible equity (annualised)		
(2xA)/D	**H**	Reported	**16.2%**	**13.1%**
(2xB)/D	**I**	Underlying	**15.6%**	**16.6%**
		Earnings per share		
A/E	**J**	Basic earnings per share	**21.8p**	**18.4p**
B/E	**K**	Underlying earnings per share	**21.0p**	**23.3p**

3. Balance sheet reconciliations			6 months 30 June 2018 £m	6 months 30 June 2017 £m
	A	Closing shareholders' funds	**3,835**	**3,653**
		Less: preference share capital	(125)	(125)
	B	**Ordinary shareholders funds**	**3,710**	**3,528**
Note 10		Less: closing goodwill and intangibles	(780)	(763)
	C	**Tangible net asset value**	**2,930**	**2,765**
Note 13	**D**	**Shares in issue at the period end**	**1,027**	**1,023**
B/D	**E**	**Net asset value per share**	**361p**	**345p**
C/D	**F**	**Tangible net asset value per share**	**285p**	**270p**

4. Net written premium movement and constant exchange			6 months 30 June 2018 £m	6 months 30 June 2017 £m
	A	**Net written premiums**	**3,219**	**3,449**
		Year-on-year movement	(230)	328
		Comprised of:		
		Volume change including portfolio actions	(119)	31
		Rate increases	123	68
	B	Reinsurance changes	(178)	8
	C	**Movement at constant exchange**	**(174)**	**107**
	D	Foreign exchange	(56)	221
		Total movement	**(230)**	**328**
C/(2017A–D)	**E**	**% movement at constant exchange**	**(5)%**	**3%**
(C-B)/(2017A-D)	**F**	**% movement at constant exchange less reinsurance**	**0%**	

5. Controllable expenses

			6 months 30 June 2018 £m	6 months 30 June 2017 £m
		Underwriting and policy admin costs	**(965)**	**(1,002)**
Rec 1 K+L		Less: commission	423	441
		Less: non controllable premium related costs e.g. levies	83	78
		Add: claims expenses within net claims	(202)	(203)
Rec 1		Add: investment expenses	(7)	(6)
Rec 1		Add: central expenses	(4)	(10)
		Add: other	(25)	(20)
		Written controllable expense base	**(697)**	**(722)**
		Less: controllable deferred acquisition costs	6	2
	A	**Earned controllable expense base**	**(691)**	**(720)**
Rec 1 A	**B**	Net earned premium	3,212	3,251
A/B	**C**	**Earned controllable expense ratio**	**21.5%**	**22.1%**

6. Underlying tax rate

			6 months 30 June 2018 %	6 months 30 June 2017 %
		Effective tax rate (ETR)	**17**	**22**
		Less tax effect of:		
		Unrecognised tax losses	1	0
		Underlying versus IFRS regional profit mix	0	(1)
		Other	1	1
	A	**Underlying tax rate**	**19**	**22**
			£m	**£m**
Rec 1 AC		Operating profit	**304**	**360**
Rec 1 O		Less interest costs	(13)	(30)
	B	**Underlying profit before tax**	291	330
AxB	**C**	**Underlying tax**	**(54)**	**(74)**
	D	Tax	(51)	(57)
C-D	**E**	**Underlying tax differential**	**(3)**	**(17)**

7. 5 year weather average

	5 year average	2017	2016	2015	2014	2013
Core Group weather ratios	**3.2%**	2.6%	2.6%	3.2%	3.5%	4.0%

REPORTING AND DIVIDEND TIMETABLE

Reporting:	
Q3 2018 trading update	1 November 2018
Dividend:	
Interim ordinary dividend for the period ended 30 June 2018:	
Announcement date	2 August 2018
Ex-dividend date	6 September 2018
Record date	7 September 2018
Dividend payment date	12 October 2018
2nd preference dividend	
Announcement date	2 August 2018
Ex-dividend date	16 August 2018
Record date	17 August 2018
Dividend payment date	1 October 2018

Note: The final ordinary dividend is conditional upon the directors being satisfied, in their absolute discretion, that the payment of the interim ordinary dividend 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 second preference dividend at a rate of 3.6875p per share.

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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 10:30am on 2 August 2018. 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.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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CONDENSED CONSOLIDATED INCOME STATEMENT
STATUTORY BASIS
for the 6 month period ended 30 June 2018

	Note	(Reviewed) 6 months 30 June 2018 £m	(Reviewed) 6 months 30 June 2017 £m
Income			
Gross written premiums		**3,950**	4,026
Less: reinsurance premiums		**(731)**	(577)
Net written premiums	**7**	**3,219**	3,449
Change in the gross provision for unearned premiums		**(242)**	(295)
Less: change in provision for unearned reinsurance premiums		**235**	97
Change in provision for net unearned premiums		**(7)**	(198)
Net earned premiums		**3,212**	3,251
Net investment return		**169**	169
Other operating income		**78**	76
Total income		**3,459**	3,496
Expenses			
Gross claims incurred		**(2,365)**	(2,584)
Less: claims recoveries from reinsurers		**217**	482
Net claims		**(2,148)**	(2,102)
Underwriting and policy acquisition costs		**(965)**	(1,002)
Unwind of discount		**(17)**	(17)
Other operating expenses		**(23)**	(76)
		(3,153)	(3,197)
Finance costs		**(13)**	(89)
Profit on disposal of business and realised gains on held for sale assets	**5**	**2**	52
Net share of profit after tax of associates		**1**	1
Profit before tax	**7**	**296**	263
Income tax expense		**(51)**	(57)
Profit for the period		**245**	206
Attributable to:			
Equity holders of the Parent Company		**235**	196
Non-controlling interests		**10**	10
		245	206
Earnings per share on profit attributable to the ordinary shareholders of the Parent Company:			
Basic	**8**	**21.8p**	18.4p
Diluted (30 June 2017 restated to exclude dilutive impact of Tier 1 conversion)	**8**	**21.6p**	18.3p
Ordinary dividend			
Final paid in respect of prior year	**9**	**13.0p**	11.0p
Interim proposed/paid in respect of current year	**9**	**7.3p**	6.6p

The following explanatory notes form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

STATUTORY BASIS

for the 6 month period ended 30 June 2018

	(Reviewed) 6 months 30 June 2018 £m	(Reviewed) 6 months 30 June 2017 £m
Profit for the period	**245**	206
Items that may be reclassified to the income statement:		
Exchange losses net of tax on translation of foreign operations	**(33)**	(9)
Fair value losses on available for sale financial assets net of tax	**(49)**	(144)
	(82)	(153)
Items that will not be reclassified to the income statement:		
Pension – remeasurement of defined benefit scheme net of tax and tax credit for scheme contributions	**164**	(5)
Total other comprehensive income/(expense) for the period	**82**	(158)
Total comprehensive income for the period	**327**	48
Attributable to:		
Equity holders of the Parent Company	**314**	44
Non-controlling interests	**13**	4
	327	48

The following explanatory notes form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY STATUTORY BASIS

for the 6 month period ended 30 June 2018

(Reviewed)

	Ordinary share capital	Ordinary share premium	Own shares	Preference shares	Revaluation reserves	Capital redemption reserve	Foreign currency translation reserve	Retained earnings	Share-holders' equity	Tier 1 notes	Non-controlling interests	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 1 January 2018	**1,023**	**1,083**	**(1)**	**125**	**297**	**389**	**54**	**683**	**3,653**	**297**	**152**	**4,102**
Total comprehensive income for the period												
Profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**235**	**235**	**-**	**10**	**245**
Other comprehensive (expense)/income for the period	**-**	**-**	**-**	**-**	**(59)**	**-**	**(26)**	**164**	**79**	**-**	**3**	**82**
	-	**-**	**-**	**-**	**(59)**	**-**	**(26)**	**399**	**314**	**-**	**13**	**327**
Transactions with owners of the Group												
Contributions and distributions												
Dividends (note 9)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(145)**	**(145)**	**-**	**(11)**	**(156)**
Shares issued for cash	**1**	**4**	**-**	**-**	**-**	**-**	**-**	**-**	**5**	**-**	**-**	**5**
Share based payments	**3**	**-**	**-**	**-**	**-**	**-**	**-**	**5**	**8**	**-**	**-**	**8**
	4	**4**	**-**	**-**	**-**	**-**	**-**	**(140)**	**(132)**	**-**	**(11)**	**(143)**
Balance at 30 June 2018	**1,027**	**1,087**	**(1)**	**125**	**238**	**389**	**28**	**942**	**3,835**	**297**	**154**	**4,286**
Balance at 1 January 2017	1,020	1,080	(1)	125	496	389	78	528	3,715	-	132	3,847
Total comprehensive income for the period												
Profit for the period	-	-	-	-	-	-	-	196	196	-	10	206
Other comprehensive expense for the period	-	-	-	-	(141)	-	(7)	(4)	(152)	-	(6)	(158)
	-	-	-	-	(141)	-	(7)	192	44	-	4	48
Transactions with owners of the Group												
Contributions and distributions												
Dividends (note 9)	-	-	-	-	-	-	-	(120)	(120)	-	(4)	(124)
Shares issued for cash	1	3	-	-	-	-	-	-	4	-	-	4
Share based payments	2	-	-	-	-	-	-	6	8	-	-	8
Issue of Tier 1 notes	-	-	-	-	-	-	-	-	-	297	-	297
Other reserve transfer	-	-	-	-	(7)	-	-	7	-	-	-	-
	3	3	-	-	(7)	-	-	(107)	(108)	297	(4)	185
Balance at 30 June 2017	1,023	1,083	(1)	125	348	389	71	613	3,651	297	132	4,080

The following explanatory notes form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
STATUTORY BASIS
as at 30 June 2018

	Note	(Reviewed) 30 June 2018 £m	(Audited) 31 December 2017 £m
Assets			
Goodwill and other intangible assets	10	**780**	763
Property and equipment		**106**	104
Investment property		**313**	308
Investments in associates		**13**	13
Financial assets	11	**11,521**	11,643
Total investments		**11,847**	11,964
Reinsurers' share of insurance contract liabilities	14	**2,424**	2,252
Insurance and reinsurance debtors		**3,112**	2,923
Deferred tax assets		**251**	276
Current tax assets		**42**	43
Other debtors and other assets		**685**	559
Other assets		**978**	878
Cash and cash equivalents	12	**774**	1,048
		20,021	19,932
Assets of operations classified as held for sale	5	**653**	668
Total assets		**20,674**	20,600
Equity and liabilities			
Equity			
Shareholders' equity		**3,835**	3,653
Tier 1 notes		**297**	297
Non-controlling interests		**154**	152
Total equity		**4,286**	4,102
Liabilities			
Loan capital		**441**	441
Insurance contract liabilities	14	**12,709**	12,793
Insurance and reinsurance liabilities		**1,097**	934
Borrowings		**222**	123
Deferred tax liabilities		**57**	56
Current tax liabilities		**13**	24
Provisions		**254**	407
Other liabilities		**942**	1,052
Provisions and other liabilities		**1,266**	1,539
		15,735	15,830
Liabilities of operations classified as held for sale	5	**653**	668
Total liabilities		**16,388**	16,498
Total equity and liabilities		**20,674**	20,600

The following explanatory notes form an integral part of these condensed consolidated financial statements.

The financial statements were approved on 1 August 2018 by the Board of Directors and are signed on its behalf by:

Scott Egan
Group Chief Financial Officer

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
STATUTORY BASIS
for the 6 month period ended 30 June 2018

	Note	**(Reviewed) 6 months 30 June 2018 £m**	(Reviewed) 6 months 30 June 2017 (Re-presented[1]) £m
Cash flows from operating activities			
Cash generated from operating activities	**18**	**131**	116
Tax paid		**(54)**	(35)
Net cash flows from operating activities		**77**	81
Cash flows from investing activities			
Proceeds/(cash outflows) from sales or maturities of:			
Financial assets		**1,167**	1,992
Sale of subsidiaries (net of cash disposed of)		**11**	(3)
Disposal of UK Legacy liabilities		**-**	(101)
Purchase of:			
Financial assets		**(1,373)**	(1,654)
Property and equipment		**(12)**	(7)
Intangible assets		**(59)**	(54)
Purchase of subsidiaries (net of cash disposed of)		**(17)**	-
Net cash flows from investing activities		**(283)**	173
Cash flows from financing activities			
Proceeds from issue of share capital		**5**	4
Proceeds from issue of Tier 1 notes		**-**	297
Dividends paid to ordinary shareholders		**(133)**	(112)
Coupon payment on Tier 1 notes		**(7)**	(3)
Dividends paid to preference shareholders		**(5)**	(5)
Dividends paid to non-controlling interests		**(11)**	(4)
Redemption of long term borrowings		**-**	(607)
Movement in other borrowings		**93**	(39)
Interest paid		**(5)**	(110)
Net cash flows from financing activities		**(63)**	(579)
Net (decrease)/increase in cash and cash equivalents		**(269)**	(325)
Cash and cash equivalents at beginning of the period		**1,049**	1,087
Effect of exchange rate changes on cash and cash equivalents		**(13)**	(12)
Cash and cash equivalents at end of the period	**12**	**767**	750

[1] A reconciliation of net profit before tax to cash flow from operating activities is now shown as a separate note.

The following explanatory notes form an integral part of these condensed consolidated financial statements.

BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

RSA Insurance Group plc (the 'Company') is a public limited company incorporated and domiciled in England and Wales. The Company through its subsidiaries and associates (together the 'Group' or 'RSA') provides personal and commercial insurance products to its global customer base, principally in the UK, Ireland, Middle East (together 'UK & International'), Scandinavia and Canada.

1. BASIS OF PREPARATION

The annual financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU). The condensed consolidated financial information in this half yearly report has been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' (IAS 34), as adopted by the EU, and the Disclosure and Transparency Rules of the Financial Conduct Authority.

The Board has reviewed the Group's ongoing commitments for the next twelve months and beyond. The Board's review included the Group's strategic plans and updated forecasts, capital position, liquidity and credit facilities, and investment portfolio. Based on this review no material uncertainties that would require disclosure have been identified in relation to the ability of the Group to remain a going concern for at least the next twelve months, from both the date of the Condensed Statement of Financial Position and the approval of the Condensed Consolidated Financial Statements.

These Condensed Consolidated Financial Statements have been prepared by applying the accounting policies used in the Annual Report and Accounts 2017 (see note 4 and Appendix A), modified for the adoption of IFRS 15.

2. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

IFRS 15 'Revenue Recognition'

IFRS 15 'Revenue recognition' became effective from 1 January 2018 and is applicable to revenue not arising from insurance contracts and financial instruments and primarily impacts the timing of income recognition. Its adoption has not resulted in an adjustment in either the current or prior periods.

3. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

IFRS 17 'Insurance Contracts' and IFRS 9 'Financial Instruments'

The International Accounting Standards Board (IASB) issued IFRS 17 'Insurance Contracts' in May 2017, which it is expected will replace IFRS 4 'Insurance Contracts' for annual reporting periods beginning on or after 1 January 2021. A Transitional Resource Group has been set up by the IASB to support implementation of the new standard. The European Reporting Advisory Group (EFRAG) are currently working on their Endorsement Advice for the European Commission, which has been requested by the end of 2018 for implementation some time in 2019. There is no certainty of what the endorsement process will be in the event that this has not happened by the time the UK ceases to be bound by the European endorsement process as a consequence of Brexit and RSA continue to monitor the situation. The Group's implementation programme is progressing in line with expectations and change activities have commenced.

IFRS 9 'Financial Instruments' has been issued to replace IAS 39 'Financial Instruments: Recognition and Measurement' and primarily changes the classification and measurement of financial assets. The Group, in line with peers, have taken advantage of the exemption available to entities whose activities are predominantly insurance related to defer applying IFRS 9 'Financial Instruments' (which would otherwise be applicable for RSA from 1 January 2018) until 1 January 2021, which will coincide with the expected implementation of IFRS 17. This will enable accounting policy choices to consider the interrelationships of IFRS 17 and 9 particularly with regards to asset and liability management. IFRS 9 is therefore being implemented alongside IFRS 17.

3. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE (CONTINUED)

IFRS 16 'Leases'

IFRS 16 'Leases' replaces the existing standard IAS 17 and standardises lessee treatment of leases and becomes effective at the latest for periods beginning on or after 1 January 2019. The standard requires a lessee to recognise a right-of-use asset, representing its right to use the underlying asset, and a lease liability, representing the corresponding obligation to make lease payment. In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight line operating lease expense with a depreciation charge for the right-of-use assets and interest expense on the lease liabilities.

The Group is continuing to prepare, during the second half of 2018, its financial reporting systems and processes ready for implementation from 1 January 2019. The actual impact of implementing IFRS 16 on the Group's financial statements will depend on future economic conditions, including the Group's borrowing rate at 1 January 2019, the composition of the Group's lease portfolio at that date, the Group's latest assessment of whether it will exercise any lease renewal options and the extent to which the group chooses to use practical expedients and recognition exemptions.

Other pronouncements

There are a number of amendments to IFRS that have been issued by the IASB that become mandatory during 2018 or in a subsequent accounting period. The Group has evaluated these changes and none have had, or are expected to have, a significant impact on the consolidated financial statements.

4. RISK MANAGEMENT

The principal risks and uncertainties of the Group and the management of these risks have not materially changed since the year ended 31 December 2017.

Details of the principal risks and uncertainties can be found in the Annual Report and Accounts 2017; Risk Management information in Note 5 on pages 118 to 124 and the estimation techniques and uncertainties in the specific disclosures to which they relate.

SIGNIFICANT TRANSACTIONS AND EVENTS

5. HELD FOR SALE DISPOSAL GROUPS

	30 June 2018	31 December 2017
UK Legacy	**£m**	£m
Assets classified as held for sale		
Reinsurers' share of insurance contract liabilities	**617**	636
Insurance and reinsurance debtors	**20**	16
Other debtors and other assets	**12**	11
Cash and cash equivalents	**4**	5
Assets of operations classified as held for sale	**653**	668
Liabilities directly associated with assets classified as held for sale		
Insurance contract liabilities	**617**	636
Insurance and reinsurance liabilities	**2**	2
Provisions and other liabilities	**34**	30
Liabilities of operations classified as held for sale	**653**	668
Net assets of operations classified as held for sale	**-**	-

During the period RSA has entered into an agreement to make a contribution of up to £17m to Enstar Group Limited, which is contingent upon Court approval of the completion of the Part VII legal transfer of the UK Legacy business.

Profit on disposal of business and realised gains on held for sale assets

In the six months to 30 June 2018, a net gain of £2m arose from the recycling of foreign currency translation reserve upon the liquidation of an Irish subsidiary.

In the six months to 30 June 2017, the net gain of £52m comprised of £66m relating to the realised gain on the investments transferred as part of the UK Legacy reinsurance transaction, offset by a charge of £(22)m on the commutation of the Group's Adverse Development Cover reinsurance protection bought partly to protect the UK Legacy book, and £8m on the disposal of the Accident and Repairs business in the UK.

6. REORGANISATION COSTS

In the six months to 30 June 2017, the reorganisation costs of £41m comprised of £20m of redundancy costs and £21m of other restructuring activities. Restructuring costs in 2017 related to amounts incurred across the Group for activities such as process re-engineering, office footprint consolidation and reduction, reducing spans of control, and outsourcing. The restructuring programme was substantially completed in 2017.

NOTES TO THE CONDENSED CONSOLIDATED INCOME STATEMENT AND CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

7. OPERATING SEGMENTS

The Group's primary operating segments comprise Scandinavia, Canada, UK & International and Central Functions, which is consistent with how the Group is managed and the segments disclosed in the Annual Report and Accounts 2017. The primary operating segments are based on geography and are all engaged in providing personal and commercial general insurance services. Central Functions include the Group's internal reinsurance function and Group Corporate Centre.

Each operating segment is managed by a member of the Group Executive Committee who is directly accountable to the Group Chief Executive and Board of Directors, who together form the central decision making function in respect of the operating activities of the Group. The UK is the Group's country of domicile and one of its principal markets.

Assessing segment performance

The Group uses the following key measures to assess the performance of its operating segments:

- Net written premiums;
- Underwriting result;
- Combined operating ratio ('COR');
- Operating result.

Net written premiums is the key measure of revenue used in internal reporting.

Underwriting result, COR and operating result are Alternative Performance Measures (APMs), the key internal measures of profitability of the operating segments. The COR reflects the ratio of claims costs and expenses (including commission) to earned premiums, expressed as a percentage.

Transfers or transactions between segments are entered into under normal commercial terms and conditions that would also be available to unrelated third parties.

7. OPERATING SEGMENTS (CONTINUED)

Segment revenue and results
Period ended 30 June 2018

	Scandinavia	Canada	UK & International	Central Functions	Total Group
	£m	**£m**	**£m**	**£m**	**£m**
Net written premiums	**1,057**	**729**	**1,532**	**(99)**	**3,219**
Underwriting result	**112**	**(4)**	**72**	**(9)**	**171**
Investment result	**35**	**29**	**72**	**-**	**136**
Central costs and other activities	**-**	**-**	**-**	**(3)**	**(3)**
Operating result (management basis)	**147**	**25**	**144**	**(12)**	**304**
Realised gains					**6**
Unrealised gains, impairments and foreign exchange					**7**
Interest costs					**(13)**
Amortisation of intangible assets					**(7)**
Pension net interest and administration costs					**(3)**
Net gains related to business disposals					**2**
Profit before tax					**296**
Tax on operations					**(51)**
Profit after tax					**245**
Combined operating ratio (%)	**87.6%**	**100.5%**	**95.3%**		**94.7%**

Period ended 30 June 2017

	Scandinavia	Canada	UK & International	Central Functions	Total Group
	£m	£m	£m	£m	£m
Net written premiums	1,064	728	1,628	29	3,449
Underwriting result	162	40	32	(12)	222
Investment result	40	31	77	-	148
Central costs and other activities	-	-	-	(10)	(10)
Operating result (management basis)	202	71	109	(22)	360
Realised gains					4
Unrealised losses, impairments and foreign exchange					(12)
Interest costs					(89)
Amortisation of intangible assets					(8)
Pension net interest and administration costs					(3)
Reorganisation costs (note 6)					(41)
Net gains related to business disposals					52
Profit before tax					263
Tax on operations					(57)
Profit after tax					206
Combined operating ratio (%)	81.9%	94.8%	98.0%		93.2%

8. EARNINGS PER SHARE

The earnings per ordinary share are calculated by reference to the profit attributable to the ordinary shareholders and the weighted average number of shares in issue during the period.

The number of shares used in the calculation on a basic and diluted basis were 1,025,335,973 and 1,031,003,282 respectively (excluding ordinary shares purchased by various employee share trusts and held as own shares).

Basic earnings per share are calculated by dividing the profit attributable to the ordinary shareholders of the Parent Company by the weighted average number of ordinary shares in issue during the period, excluding ordinary shares purchased by various employee share trusts and held as own shares.

Diluted earnings per share are calculated by dividing the profit attributable to the ordinary shareholders of the Parent Company by the diluted weighted average number of ordinary shares in issue during the period, excluding ordinary shares purchased by various employee share trusts and held as own shares.

9. DISTRIBUTIONS PAID AND DECLARED

	30 June 2018	30 June 2017	**30 June 2018**	30 June 2017
	p	p	**£m**	£m
Ordinary dividend:				
Final paid in respect of prior year	**13.0**	11.0	**133**	112
Preference dividend			**5**	5
Tier 1 notes coupon payment			**7**	3
			145	120

Subsequent to 30 June 2018, the directors declared an interim dividend of **7.3p** (30 June 2017: 6.6p) per ordinary share amounting to a total of **£75m** (2017: £67m). The proposed dividend will be paid on 12 October 2018 and accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2018.

NOTES TO THE CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

10. GOODWILL AND INTANGIBLE ASSETS

	30 June 2018	31 December 2017
	£m	£m
Goodwill	357	362
Externally acquired software	1	5
Internally generated software	356	334
Other	66	62
Total goodwill and other intangible assets	**780**	763

Other includes customer lists, renewal rights and acquired brands.

The following impairment charges and write-offs have been recognised in the period.

	30 June 2018	30 June 2017
	£m	£m
Other intangible asset write-offs	2	-

The software impairment charge of **£2m** during the six months to 30 June 2018 (30 June 2017: £nil) was recognised within underwriting and policy acquisition costs.

11. FINANCIAL ASSETS AND FAIR VALUE MEASUREMENTS

Financial assets

	30 June 2018	31 December 2017
	£m	£m
Equity securities	782	764
Debt securities	10,469	10,660
Financial assets measured at fair value	11,251	11,424
Loans and receivables	270	219
Total financial assets	**11,521**	11,643

11. FINANCIAL ASSETS AND FAIR VALUE MEASUREMENTS (CONTINUED)

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments and other items that are measured subsequent to initial recognition at fair value as well as financial liabilities not measured at fair value, grouped into Levels 1 to 3. The table does not include financial assets and liabilities not measured at fair value if the carrying value is a reasonable approximation of fair value.

	Fair value hierarchy 30 June 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
	£m	**£m**	**£m**	**£m**
Group occupied property - land and buildings	**-**	**-**	**34**	**34**
Investment property	**-**	**-**	**313**	**313**
Available for sale financial assets:				
Equity securities	**432**	**-**	**350**	**782**
Debt securities	**3,758**	**6,275**	**417**	**10,450**
Financial assets at fair value through the income statement:				
Equity securities	**-**	**-**	**-**	**-**
Debt securities	**-**	**-**	**19**	**19**
	4,190	**6,275**	**1,133**	**11,598**
Derivative assets:				
At fair value through the income statement	**-**	**37**	**-**	**37**
Designated as hedging instruments	**-**	**16**	**-**	**16**
Total assets measured at fair value	**4,190**	**6,328**	**1,133**	**11,651**
Derivative liabilities:				
At fair value through the income statement	**-**	**45**	**-**	**45**
Designated as hedging instruments	**-**	**59**	**-**	**59**
Total liabilities measured at fair value	**-**	**104**	**-**	**104**
Loan capital	**-**	**480**	**-**	**480**
Total liabilities not measured at fair value	**-**	**480**	**-**	**480**

11. FINANCIAL ASSETS AND FAIR VALUE MEASUREMENTS (CONTINUED)

	Fair value hierarchy 31 December 2017			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Group occupied property - land and buildings	-	-	35	35
Investment property	-	-	308	308
Available for sale financial assets:				
Equity securities	407	7	350	764
Debt securities	3,711	6,604	327	10,642
Financial assets at fair value through the income statement:				
Debt securities	-	-	18	18
	4,118	6,611	1,038	11,767
Derivative assets:				
At fair value through the income statement	-	45	-	45
Designated as hedging instruments	-	25	-	25
Total assets measured at fair value	4,118	6,681	1,038	11,837
Derivative liabilities:				
At fair value through the income statement	-	39	-	39
Designated as hedging instruments	-	49	-	49
Total liabilities measured at fair value	-	88	-	88
Loan capital	-	507	-	507
Total liabilities not measured at fair value	-	507	-	507

Estimation of the fair value of assets and liabilities

Fair value is used to value a number of assets within the statement of financial position and represents its market value at the reporting date.

Group occupied property and investment property

Group occupied properties are valued on a vacant possession basis using third party valuers. Investment properties are valued, at least annually, at their highest and best use.

The fair value of property has been determined by external, independent valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued.

The valuations of buildings with vacant possession are based on the comparative method of valuation with reference to sales of other vacant buildings. Fair value is then determined based on the locational qualities and physical building characteristics (principally condition, size, specification and layout) as appropriate.

Investment properties are valued using discounted cash flow models which take into account the net present value of cash flows to be generated from the properties. The cash flow streams reflect the current rent (the gross rent) payable to lease expiry, at which point it is assumed that each unit will be re-let at its estimated rental value. Allowances have been made for voids and rent free periods where applicable. The appropriate rent to be capitalised is selected on the basis of the location of the building, its quality, tenant credit quality and lease terms amongst other factors.

These cash flows are discounted at an appropriate rate of interest to determine their present value.

11. FINANCIAL ASSETS AND FAIR VALUE MEASUREMENTS (CONTINUED)

In both cases the estimated fair value would increase/(decrease) if:

- The estimated rental value is higher/(lower);
- Void periods were shorter/(longer);
- The occupancy rates were higher/(lower);
- Rent free periods were shorter/(longer);
- The discount rates were lower/(higher).

Derivative financial instruments

Derivative financial instruments are financial contracts whose fair value is determined on a market basis by reference to underlying interest rate, foreign exchange rate, equity or commodity instrument or indices.

Loan capital

The fair value measurement of the Group's loan capital instruments, with the exception of the subordinated guaranteed US$ bonds, are based on pricing obtained from a range of financial intermediaries who base their valuations on recent transactions of the Group's loan capital instruments and other observable market inputs such as applicable risk free rate and appropriate credit risk spreads.

The fair value measurement of the subordinated guaranteed US$ bonds is also obtained from an indicative valuation based on the applicable risk free rate and appropriate credit risk spread.

Fair value hierarchy

Fair value for all assets and liabilities, which are either measured or disclosed, is determined based on available information and categorised according to a three-level fair value hierarchy as detailed below:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from data other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3 fair value measurements are those derived from valuation techniques that include significant inputs for the asset or liability valuation that are not based on observable market data (unobservable inputs).

A financial instrument is regarded as quoted in an active market (level 1) if quoted prices for that financial instrument are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The Group uses prices received from external providers who calculate these prices from quotes available at the reporting date for the particular investment being valued. For investments that are actively traded, the Group determines whether the prices meet the criteria for classification as a level 1 valuation. The price provided is classified as a level 1 valuation when it represents the price at which the investment traded at the reporting date taking into account the frequency and volume of trading of the individual investment together with the spread of prices that are quoted at the reporting date for such trades. Typically investments in frequently traded government debt would meet the criteria for classification in the level 1 category. Where the prices provided do not meet the criteria for classification in the level 1 category, the prices are classified in the level 2 category.

In limited circumstances, the Group does not receive pricing information from an external provider for its financial investments. In such circumstances the Group calculates fair value which may use input parameters that are not based on observable market data. Unobservable inputs are based on assumptions that are neither supported by prices from observable current market transactions for the same instrument nor based on available market data. In these cases, judgment is required to establish fair values. Valuations that require the significant use of unobservable data are classified as level 3 valuations. In addition, the valuations used for investment properties and for Group occupied properties are classified in the level 3 category.

11. FINANCIAL ASSETS AND FAIR VALUE MEASUREMENTS (CONTINUED)

A reconciliation of Level 3 fair value measurements of financial assets is shown in the table below. There are no Level 3 financial liabilities.

	Available for sale investments		Investments at fair value through the income statement		
	Equity securities	Debt securities	Equity securities	Debt securities	Total
	£m	£m	£m	£m	£m
Level 3 financial assets at 1 January 2017	363	290	6	19	678
Total gains/(losses) recognised in:					
Income statement	2	-	-	(1)	1
Other comprehensive income	(12)	(6)	-	-	(18)
Purchases	22	59	-	-	81
Disposals	(31)	(16)	(6)	-	(53)
Exchange adjustment	6	-	-	-	6
Level 3 financial assets at 1 January 2018	**350**	**327**	**-**	**18**	**695**
Total gains/(losses) recognised in:					
Income statement	**-**	**(2)**	**-**	**1**	**(1)**
Other comprehensive income	**2**	**8**	**-**	**-**	**10**
Purchases	**26**	**89**	**-**	**-**	**115**
Disposals	**(27)**	**(5)**	**-**	**-**	**(32)**
Exchange adjustment	**(1)**	**-**	**-**	**-**	**(1)**
Level 3 financial assets at 30 June 2018	**350**	**417**	**-**	**19**	**786**

The following table shows the level 3 available for sale financial assets, investment properties and Group occupied property carried at fair value as at the balance sheet date, the valuation basis, main assumptions used in the valuation of these instruments and reasonably possible decreases in fair value based on reasonably possible alternative assumptions.

		Reasonably possible alternative assumptions			
		30 June 2018		31 December 2017	
Available for sale financial assets and property	**Main assumptions**	**Current fair value** £m	**Decrease in fair value** £m	**Current fair value** £m	**Decrease in fair value** £m
Group occupied property - land and buildings[1]	Property valuation	**34**	**(6)**	35	(5)
Investment properties[1]	Cash flows; discount rate	**313**	**(50)**	308	(48)
Level 3 available for sale financial assets:					
Equity securities[2]	Cash flows; discount rate	**350**	**(9)**	350	(10)
Debt securities[2]	Cash flows; discount rate	**417**	**(11)**	327	(9)
Total		**1,114**	**(76)**	1,020	(72)

[1] The Group's property portfolio (including the Group occupied properties) is almost exclusively located in the UK. Reasonably possible alternative valuations have been determined using an increase of 100bps in the discount rate used in the valuation.

[2] The Group's investments in financial assets classified at level 3 in the hierarchy are primarily investments in various private fund structures investing in debt instruments where the valuation includes estimates of the credit spreads on the underlying holdings. The estimates of the credit spread are based upon market observable credit spreads for what are considered to be assets with similar credit risk. Reasonably possible alternative valuations have been determined using an increase of 100bps in the credit spread used in the valuation.

12. CASH AND CASH EQUIVALENTS

	30 June 2018	30 June 2017	31 December 2017
	£m	£m	£m
Cash and cash equivalents and bank overdrafts (as reported within the Condensed Consolidated Statement of Cash Flows)	**767**	750	1,049
Add: Bank overdrafts reported in Borrowings	**11**	11	4
Total cash and cash equivalents	**778**	761	1,053
Less: Assets classified as held for sale	4	-	5
Total cash and cash equivalents (as reported within the Condensed Consolidated Statement of Financial Position)	**774**	761	1,048

13. SHARE CAPITAL

The issued share capital at 30 June 2018 consists of 1,026,758,378 ordinary shares of £1.00 each and 125,000,000 of preference shares of £1.00 each (31 December 2017: 1,022,835,039 ordinary shares of £1.00 each and 125,000,000 preference shares of £1.00 each).

The issued share capital of the Parent Company is fully paid.

14. INSURANCE CONTRACT LIABILITIES

Gross insurance contract liabilities and the reinsurers' share of insurance contract liabilities

Details of the Group accounting policies in respect of insurance contract liabilities can be found in Note 4 on page 112 of the Annual Report and Accounts 2017.

The gross insurance contract liabilities and the reinsurers' share of insurance contract liabilities presented in the Condensed Consolidated Statement of Financial Position are comprised as follows:

Period ended 30 June 2018	**Gross**	**RI**	**Net**
	2018	**2018**	**2018**
	£m	**£m**	**£m**
Provision for unearned premiums	**3,488**	**(967)**	**2,521**
Provision for losses and loss adjustment expenses	**9,838**	**(2,074)**	**7,764**
Total insurance contract liabilities	**13,326**	**(3,041)**	**10,285**
Less: Held for sale provisions for losses and loss adjustment expenses	**617**	**(617)**	**-**
Less: Total liabilities held for sale	**617**	**(617)**	**-**
Provision for unearned premiums at 30 June	**3,488**	**(967)**	**2,521**
Provision for losses and loss adjustment expenses at 30 June net of held for sale	**9,221**	**(1,457)**	**7,764**
Total insurance contract liabilities excluding held for sale	**12,709**	**(2,424)**	**10,285**

Period ended 31 December 2017	Gross	RI	Net
	2017	2017	2017
	£m	£m	£m
Provision for unearned premiums	3,316	(729)	2,587
Provision for losses and loss adjustment expenses	10,113	(2,159)	7,954
Total insurance contract liabilities	13,429	(2,888)	10,541
Less: Held for sale provisions for losses and loss adjustment expenses	636	(636)	-
Less: Total liabilities held for sale	636	(636)	-
Provision for unearned premiums at 31 December	3,316	(729)	2,587
Provision for losses and loss adjustment expenses at 31 December net of held for sale	9,477	(1,523)	7,954
Total insurance contract liabilities excluding held for sale	12,793	(2,252)	10,541

15. RETIREMENT BENEFIT OBLIGATIONS

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 30 June 2018.

	UK	Other	Group
	£m	£m	£m
Pension fund at 1 January 2018	**(23)**	**(65)**	**(88)**
Re-measurements[1]	**170**	**6**	**176**
Deficit funding	**48**	**2**	**50**
Other movements[2]	**4**	**3**	**7**
Pension fund at 30 June 2018	**199**	**(54)**	**145**

	UK	Other	Group
	£m	£m	£m
Pension fund at 1 January 2017	(113)	(84)	(197)
Re-measurements[1]	66	10	76
Increase in tax on scheme surplus[3]	(32)	-	(32)
Deficit funding	55	4	59
Other movements[2]	1	5	6
Pension fund at 31 December 2017	(23)	(65)	(88)

[1] Remeasurements include investment expenses, variance against net interest, change in actuarial assumptions and experience losses.

[2] Other movements include regular contributions, service/administration costs and net interest costs.

[3] Incremental impact of tax cost of an authorised return of surplus triggered by the closure of UK schemes to future accrual on 31 March 2017.

The Group's IAS 19 pension position net of tax has improved in the first half of 2018 from a deficit of £(88)m to a surplus of £145m.

The UK pension position net of tax has improved by £222m during the first half of 2018 to a surplus of £199m. The movement in the period is driven by changes to actuarial assumptions of £367m, change in scheme assets less amounts included in interest income of £(177)m, contributions of £56m, experience losses of £(18)m and service costs of £(6)m.

A full actuarial review of the overseas pension positions will be carried out at the year end.

16. RELATED PARTY TRANSACTIONS

During the first half of 2018, there have been no related party transactions that have materially affected the financial position or the results for the period. There have also been no changes in the nature of the related party transactions as disclosed in Note 15 on page 136 of the Annual Report and Accounts for the year ended 31 December 2017.

17. RESULTS FOR THE YEAR 2017

The statutory accounts of RSA Insurance Group plc for the year ended 31 December 2017 have been delivered to the Registrar of Companies. The independent auditor's report on the Group accounts for the year ended 31 December 2017 is unqualified, does not draw attention to any matters by way of emphasis and does not include a statement under section 498(2) or (3) of the Companies Act 2006.

NOTES TO THE CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

18. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

The reconciliation of net profit before tax to cash flows from operating activities is as follows:

	30 June 2018 £m	30 June 2017 £m
Cash flows from operating activities		
Profit for the year before tax	**296**	263
Adjustments for non-cash movements in net profit for the year		
Amortisation of available for sale assets	**22**	31
Depreciation	**9**	11
Amortisation and impairment of intangible assets	**46**	45
Fair value (gains) on disposal of financial assets	**(11)**	-
Impairment on available for sale financial assets	**3**	-
Share of (profit) of associates	**(1)**	(1)
Net gains related to business disposals	**(2)**	(52)
Foreign exchange loss	**9**	9
Other non-cash movements	**8**	16
Changes in operating assets/liabilities		
Loss and loss adjustment expenses	**(41)**	(96)
Unearned premiums	**(31)**	182
Movement in working capital	**(115)**	(326)
Reclassification of investment income and interest paid	**(159)**	(72)
Pension deficit funding	**(65)**	(65)
Cash generated from investment of insurance assets		
Dividend income	**18**	16
Interest and other investment income	**145**	155
Cash flows from operating activities	**131**	116

APPENDIX A: EXCHANGE RATES

Local currency/£	**6 months 30 June 2018**		6 months 30 June 2017		12 months 31 December 2017	
	Average	**Closing**	Average	Closing	Average	Closing
Canadian Dollar	1.76	1.74	1.68	1.69	1.67	1.70
Danish Krone	8.47	8.43	8.64	8.47	8.49	8.39
Swedish Krona	11.55	11.81	11.14	10.98	10.99	11.09
Euro	1.14	1.13	1.16	1.14	1.14	1.13

RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE HALF-YEARLY FINANCIAL REPORT

We confirm that to the best of our knowledge:

The condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the EU and gives a true and fair view of the assets, liabilities, financial position and result of the Group.

The interim management report includes a fair review of the information required by:

- DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

- DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

Signed on behalf of the Board

Stephen Hester Group Chief Executive	Scott Egan Group Chief Financial Officer
1 August 2018	1 August 2018

INDEPENDENT REVIEW REPORT TO RSA INSURANCE GROUP PLC

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2018 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity, the condensed consolidated statement of financial position, the condensed consolidated statement of cashflows and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2018 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Daniel Cazeaux
for and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square
London
E14 5GL
1 August 2018